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# Proposed revisions to the AICPA standards for performing and reporting on peer reviews; Exposure draft (American Institute of Certified Public Accountants), 2007, April 16

American Institute of Certified Public Accountants. Peer Review Board

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# **EXPOSURE DRAFT**

## **PROPOSED REVISIONS TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS**

**April 16, 2007**

**Prepared by the AICPA Peer Review Board for comment  
from persons interested in the AICPA Peer Review Program**

**Comments should be received by June 30, 2007 and addressed to  
Susan Rowley, Senior Technical Manager,  
AICPA Peer Review Program,  
AICPA,  
220 Leigh Farm Road, Durham, NC 27707-8110  
or via the Internet to [srowley@aicpa.org](mailto:srowley@aicpa.org)**

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April 16, 2007

This exposure draft has been approved for issuance by the AICPA Peer Review Board (Board), and contains several proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)* and Interpretations to the *Standards*. Interpretations are discussed and developed in open meetings by the Board and do not need to be exposed for public comment. However, they have been included here for review and comment as they provide clarification of matters within the *Standards*.

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Responses should be sent to Susan Rowley, Senior Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 in time to be received by June 30, 2007. Electronic submissions of comments or suggestions in Microsoft Word should be sent to [srowley@aicpa.org](mailto:srowley@aicpa.org) in time to be received by June 30, 2007.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program and will be available for public inspection at the offices of the AICPA after September 30, 2007 for one year.

The exposure draft includes an executive summary of the more significant proposed revisions to the current *Standards* and Interpretations, followed by further explanations and other matters considered by the Board, including background and other pertinent information. Since the *Standards* and Interpretations include numerous significant changes from the current versions, and since the presentation format is also significantly different, the exposure draft is not in tracked changes. The Board requests that interested parties review the exposure draft from a fresh perspective. The executive summary and related sections should serve as the bridge between the current *Standards* and Interpretations and those included in this exposure draft. Exhibits of certain proposed guidance materials are included for reference purposes and follow the *Standards* and Interpretations.

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2005) are also available on the AICPA Peer Review Web site at <http://www.aicpa.org/members/div/practmon/index.htm>.

Sincerely,

*David Jentho*

David Jentho  
Chair  
AICPA Peer Review Board

*Gary Freundlich*

Gary Freundlich  
Director  
AICPA Peer Review Program

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2007**

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## **Executive Summary**

### **Why Issued**

Many factors, most notably the need to be responsive to peer review users' needs, have influenced the need for a current reevaluation of the AICPA Peer Review Program's (Program) *Standards for Performing and Reporting on Peer Reviews (Standards)*.

Pivotal was the significant feedback on the Program as a whole from an on-line poll of the Program's users. The feedback was considered by an AICPA Board of Directors (BOD) task force established in May 2005, which issued a report of recommendations ([http://www.aicpa.org/download/transparency/BOD\\_TF\\_Report.pdf](http://www.aicpa.org/download/transparency/BOD_TF_Report.pdf)) to enhance the Program in February 2006.

In addition, since 2003, the Center for Public Company Audit Firms (CPCAF) Peer Review Program's (PRP) Peer Review Committee (PRC) and the Program's Peer Review Board (PRB) has been discussing various harmonization and merger issues. A Joint Peer Review Task Force was created in 2004 to evaluate whether, and how, the two related peer review programs could be harmonized and/or merged, as well as to consider other enhancements.

The restructuring of the CPCAF such that it will no longer administer a peer review program has also given rise to the need to reevaluate the Program.

The most significant conclusions to come from the work of the above task forces were (1) a recommendation to merge the two peer review programs and (2) a recommendation to reengineer the reporting process to be more understandable and usable in light of the growing mandate that the results of peer reviews be made more widely available. The PRB has issued this exposure draft to propose those recommendations and incorporate other revisions to the *Standards* and related Interpretations (AICPA *Professional Standards*, PR Section 100) that are expected to result in a more efficient and effective Program.

To ensure Program integrity and usefulness, the PRB designed the proposed revisions to meet stakeholders' needs. The revisions recognize the importance peer review plays in the state board of accountancy licensure process. Approximately 40 state boards require peer review, as do other regulators such as the Government Accountability Office. The PRB strongly believes that the proposed revisions will improve peer review execution and rigor. Also, a new reporting model designed to meet the needs of reviewed firms and other stakeholders will enhance peer review report clarity, comparability and understandability.

## What it does

This proposal—

1. Creates one set of *Standards* and Interpretations within the AICPA Peer Review Program (Program) for all AICPA members subject to peer review. The National Peer Review Committee (National PRC) will administer the Program at the AICPA for those peer reviews previously performed under the auspices of the CPCAF PRP.
2. Creates *Standards* that are more principles based; detailed guidance is in the Interpretations. All guidance has been reevaluated, reengineered, updated and clarified.
3. Defines the terms “matter”, “finding”, “deficiency” and “significant deficiency”, describes how they may affect the type of report issued on a System or Engagement Review, and eliminates use of the term “substandard” due to an increased systems oriented focus.
4. Expands the use of existing peer review practice aids (in particular the Matter for Further Consideration, or MFC, form), allowing a derivation of the MFC form, called the Finding for Further Consideration, or FFC, form, to communicate findings to the reviewed firm and receive related written responses that don’t affect the opinion or type of peer review report issued. This change eliminates the separate letter of comment, and in doing so makes the reporting model more efficient.
5. Creates a new, more understandable and easier to use peer review reporting model for System and Engagement Reviews. Specifically, it revamps the wording of the reports to make them shorter and more concise.
6. Folds Report Reviews into Engagement Reviews while maintaining several attributes of the Report Review process, and makes other revisions to Engagement Reviews:
  - a. For compilation engagements performed under *Statements on Standards for Accounting and Review Services*, the reviewer evaluates the firm’s documentation by reviewing background and engagement profile information, firm representations and inquiries rather than reading the actual documentation.
  - b. Revises the definition of what constitutes a repeat finding; the disclosure, presentation or measurement finding should be the same or very similar to that noted in the previous review.
7. Clarifies that the *Standards* can be used by certain approved administering entities to administer peer reviews of non-AICPA firms and under what circumstances, and clarifies current enrollment eligibility requirements.

In addition, the proposal:

8. Adds the concept of a review team assessing its “capability” to perform a peer review.
9. Removes the requirement for reviewer completion of a training course(s) when the function of the reviewer is other than reviewing engagements.
10. Adds the requirement, currently addressed in other existing guidance, that peer reviewers timely complete and update a resume that accurately reflects their reviewer qualifications including recent industry experience.
11. Clarifies guidance about restrictions and limitations on practices, including informing administering entities of communications received relating to allegations or investigations in the conduct of accounting, auditing or attestation engagements.
12. Clarifies the role of associations of CPA firms in the peer review process.
13. Adds audits of non-SEC issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB) into the *Standards* definition of an accounting and auditing practice.
14. Provides team captain guidance applicable to a reviewed firm that has undergone a PCAOB inspection, including inquiries of appropriate firm personnel.
15. For Engagement Reviews:
  - Provides guidance for the type of report to be issued when the exact same significant deficiency occurs on each of the engagements submitted for review, and there are no other significant deficiencies.
  - Provides that the technical reviewer can be delegated the acceptance responsibility for certain peer reviews with no MFC forms.
  - Changes the report to state that its objective is to “evaluate” whether the engagements submitted for review were performed and reported in conformity with applicable professional standards in all material respects.
  - Includes report language regarding the firm’s responsibility for designing and complying with a system of quality control.
  - Defines the term “review captain”.
16. Removes Interpretation Number 9 to the current *Standards* regarding significant matters and comments on a Report Review so the interpretation may be reevaluated and issued in the form of guidance for Engagement Reviews.
17. Clarifies information to be included in the reviewed firm’s representation letter.
18. Modifies the peer review documentation retention period from 90 days to 120 days.



19. Incorporates guidance for performing and reporting on peer reviews of quality control materials and continuing professional education programs.
20. Changes guidance on use of an individual or firm performing the internal inspection and peer review for a firm.
21. Considers the anticipated issuance of Statement on Quality Control Standards No. 7 “*A Firm’s System of Quality Control*” throughout the guidance, since it is expected to be in effect when the revised *Standards* and Interpretations become effective.

**How it Affects Existing Standards**

Revisions to the *Standards* adopted, after exposure and consideration of the comments received, would be effective for peer reviews commencing on or after January 1, 2009. Early implementation is not permitted.

## **Further Explanations of the Proposed Revisions and Other Matters Considered by the AICPA PRB**

1. One AICPA Peer Review Program for all AICPA members subject to peer review, with the National PRC administering the Program at the AICPA for certain firms (See Paragraphs 12 and 128 and Interpretation 8)

### *AICPA Board of Directors Task Force*

In May 2005, the AICPA Board of Directors (BOD) established a task force to recommend changes to the profession's peer review programs. The BOD Task Force was chaired by a member of the AICPA BOD and included representation from small, medium and large CPA firms, business & industry, state CPA society leadership and regulators.

The BOD task force was specifically charged with reviewing the results of an on-line poll conducted as a part of the AICPA's peer review transparency member awareness initiative. Although the primary purpose of the poll was to assess members' desire to provide greater transparency of peer review results, many of the comments from the 2500 respondents to the poll, regardless of their attitudes toward greater transparency, expressed the need for clarification of or enhancements to various aspects of the AICPA peer review programs.

Significant feedback was expressed regarding the understandability and usability of peer review reports, including how they are "rated", and letters of comments (collectively referred to as the "reporting process"). In addition, many comments noted the lack of consistency among (and amount of time spent by) peer reviewers and peer review committees in writing and considering letters of comments, respectively, when by their nature, the matters included in letters of comments are not of such significance to affect the opinion or type of report issued.

There were also remarks about consistency in the context of having the AICPA PRP with three types of peer reviews and one set of standards and the CPCAIF PRP with a different set of standards.

### *Harmonization and Merger Issues*

Since 2003, the PRB and the CPCAIF PRC have been discussing various harmonization and merger issues.

A merger of the Institute's two peer review programs was a natural progression of the changes that had occurred in 2004 with the establishment of the PCAOB. One of the results of moving the responsibility of regulating firms' SEC practices over to the PCAOB was that the responsibility to peer review AICPA members' SEC issuer practices was shifted over to the PCAOB's inspection process. The AICPA therefore eliminated the SEC Practice Section (SECPS), which was a regulatory practice section, effective December 31, 2003. Its restructured successor was the CPCAIF, an audit quality center, which also included the CPCAIF PRP (the successor to the SECPS PRP, which continued to use most of the SECPS PRP peer review standards). The most significant peer review related change made when

transitioning the SECPS PRP to the CPCAF PRP was that the peer review process no longer included peer reviewing a firm's SEC issuer practices.

Since both programs were peer reviewing non-SEC issuer practices, the need to continue to have two AICPA practice monitoring programs was explored. The PRB and the CPCA PRC created a Joint Peer Review Task Force (Task Force) in 2004 to address these matters as well as to consider various input received to enhance the programs. The Task Force concluded that there were notable commonalities between the two programs; they both focus on the non-SEC issuer practice, have the same objectives, and their enrolled firms provide the same services using the same professional standards. It also considered that the CPCA F was restructured at December 31, 2005 (see below).

There was a consensus to first begin harmonizing the programs (for example, via the use of shared practice aids). Then, as a result of their continued work, the Task Force concluded that a single program with a single set of peer review standards and a national administration and acceptance body for certain firms was appropriate. This structure delivers simplification to the AICPA's practice monitoring program, allows it to communicate to its users with "one voice", and creates efficiencies in many aspects of its performance, reporting and administration, which in turn enhances peer review.

The Task Force was also charged with presenting a draft of proposed revisions to the *Standards* to the PRB for its discussion and deliberation and consideration for exposure. In summer 2006, the Task Force's work was presented to the PRB's Standards Task Force, who assumed the continued responsibility for it, and developed it further into this exposure draft.

#### *CPCA F Restructuring*

Unrelated to the above developments, the CPCA F was restructured effective December 31, 2005, and no longer administers a peer review program. This restructure occurred with the understanding that the CPCA F PRP and the AICPA PRP were working towards merging into a single peer review program and the related *Standards* were being developed. The CPCA F PRP was permitted by the BOD to operate status quo until the single peer review program and related *Standards* become effective.

#### *Reconstituted Governance*

As a result of the Task Force's work, and with the understanding that the PRB's Standards Task Force would be finalizing the exposure draft of proposed revisions to the *Standards* to relate to all AICPA members subject to peer review, the PRB was reconstituted to include representation from a cross-section of the entire population of AICPA firms subject to peer review, including small, medium, regional and the largest national firms. The PRB continues to include other members such as state CPA society chief executive officers and a regulator.

#### *New Administering Entity*

Until the effective date of these *Standards*, the CPCA F PRP and PRC are separate and distinct from the AICPA PRP and PRB. Upon the effective date of these *Standards*, the CPCA F PRP and PRC will be discontinued, and the CPCA F PRC becomes the PRB's National Peer Review Committee (National PRC) which will administer the Program at the AICPA for certain firms.

Under Interpretation 8 to the current *Standards*, firms that are required to be registered with and inspected by the PCAOB are not eligible to enroll in the AICPA PRP and need to enroll in the CPCAF PRP. Firms performing audits of non-SEC issuers pursuant to the standards of the PCAOB are encouraged to enroll in the CPCAF PRP as well, due to the fact that they would receive a scope limitation in their peer review report, since the AICPA PRP currently does not include such engagements in the scope of the peer review. However, under the proposed revisions, these firms would be required to have their AICPA PRP peer review administered by the National PRC.

Several factors led to this conclusion. For instance, although the peer review process excludes reviewing a firm's SEC issuer practice, peer review teams and peer review committees must still take into consideration the effect of the firm's PCAOB inspection process. Furthermore, peer reviewers and peer review committees must be knowledgeable about the standards issued by the PCAOB when peer reviewing and considering audits of non-SEC issuers performed pursuant to those standards. However, there is a current limited availability of technical reviewers and peer review committee members with this experience and background at the AICPA PRP's existing administering entities. The CPCAF PRC discussed these matters with the AICPA PRB, drawing on first hand experience of administering the peer reviews of such firms and supports the proposal that a national peer review committee be involved in administering and considering such peer reviews. It is expected that this approach will also optimize the consistency of addressing the issues associated with these peer reviews.

2. Principles Based Standards and Related Reevaluation of All Guidance (See full exposure draft (ED) and Paragraph 131)

*Principles Based Standards*

While AICPA firms are of diverse sizes and have diverse practices and peer review issues, they have in common that they provide the same services using the same professional standards, and their peer reviews are intended to achieve the same basic objectives. With this in mind, the *Standards* have been restructured to be more principles based, in order that they address the basic objectives of a peer review and how it is performed, reported upon and administered, and so that they can be applicable to a diverse population of users. The *Standards* provide an overarching framework for the Program; detailed guidance has been built into the Interpretations. This will allow the PRB to be more responsive to user feedback and environmental changes in that interpretive guidance can be modified as needed.

In conjunction with these changes, the Interpretations have been reformatted to link to specific paragraphs of the *Standards* (See Interpretations "Notice to Readers").

Incorporated into the proposed *Standards* is the recognition that administering entities, and in some situations, firms and peer reviewers, may need the flexibility, in specific circumstances, to implement alternate methods of complying with the *Standards*, Interpretations or guidance issued by the PRB, and the proposed *Standards* provide a mechanism and process for flexibility.

The intent of this guidance is not for each administering entity to create its own set of standards, guidance and materials, but rather to have a formal mechanism to make requests of the PRB for flexibility with unusual and infrequent situations. The request is to be submitted by the administering entity's peer review committee in conjunction with the submission of its Plan of Administration. It is not expected that such requests would be made frequently or every time there is a difficult peer review. The comprehensiveness of the administering entity's oversight policies and procedures as well as the results of its PRB oversight will be considered in the PRB's determination.

#### *Reevaluation of all Guidance*

In conjunction with the restructuring of the *Standards* and Interpretations, the guidance was reevaluated, updated and clarified. This was in response to input received over the past couple of years by the PRB from reviewed firms, peer reviewers, technical reviewers and peer review committee members suggesting various changes to the organization (order) of the *Standards* as well as revisions to various explanatory and narrative paragraphs and illustrations. Several of the proposed revisions serve simply to update and clarify existing language. For example, performing and reporting on System Reviews is followed by performing and reporting on Engagements Reviews, rather than a discussion of "performance" on each followed by "reporting" on each. Other revisions were the result of discussion and debate on each aspect of the *Standards* and Interpretations, and guidance that was viewed with a "fresh" approach in order to seize the opportunity to determine what would be responsive to its users' feedback. As part of this process, the SECPS peer review standards, mostly still in use by the CPCA PRP, were also considered. Overall, the PRB believes that the resultant *Standards* are clearer, more concise and appropriate.

### 3. Defined Terms for Matter, Finding, Deficiency and Significant Deficiency and Related Enhanced Process Guidance (See Paragraphs 69 through 72 and 110 through 112 and Interpretation 19)

In developing the exposure draft, it was noticeable that all of its users would need to first "speak the same language" to describe the conditions or issues they encounter during a peer review. Therefore, a set of definitions were developed to describe a matter, finding, deficiency and significant deficiency. It is expected that the definitions will promote consistency, provide more structure and guidance for reviewers, and assist administering entities to effectively exercise their oversight responsibilities.

The definitions are the foundation to the proposed new reporting model. The proposed *Standards* establish a hierarchy or ladder that a condition gets elevated up if applicable, and provides guidance for aggregating and evaluating those conditions, documenting them, and determining how they might affect the type of report issued. For System Reviews, determining the significance of individual matters, combined with others or alone, in conjunction with the nature, cause (if applicable), pattern, pervasiveness and implications/significance to the system of quality control as a whole is a matter of professional judgment, and careful consideration is required in forming such conclusions and the impact on a peer review report. For Engagement Reviews, determining the nature and significance of individual matters, combined with others or alone, is also an important process. These processes are summarized in flowcharts, one for System Reviews and

another for Engagement Reviews, which the PRB believes will be integral to a user's understanding of the process. The PRB expects to issue additional implementation guidance on these definitions.

In conjunction with these changes, the PRB proposes that System Reviews be more system oriented, and thus references to substandard engagements, which is an engagement oriented concept, has been eliminated. Instead, the proposed *Standards* assist the reviewer in determining the effect of matters noted on the firm's system of quality control as a whole. Nevertheless, reviewers will be asked to continue to track those engagements which were not performed or reported in conformity with applicable professional standards in all material respects, so that administering entities and the Program can continue to track statistics for analytical purposes.

4. Expands the Use of Existing Peer Reviewer Working Paper Documentation Outside of the Reporting and Acceptance Process to Communicate Findings to the Reviewed Firm that Don't Affect the Peer Review Report Issued (See Paragraphs 73-74, 113-114 and Exhibits to the ED)

*Expands Current Documentation*

The PRB received significant feedback from users reflecting that they often found the current letter of comment to be confusing and misunderstood its purpose, in particular in light of the letter of comment having no effect on the opinion or type of report issued. In addition, there is a large volume of resources committed by those involved in the peer review to refining the separate letter of comment and how comments are worded and presented. Considering these items, the PRB concluded to eliminate the separate letter of comment.

However, in order to retain the spirit of the peer review program and its objective of promoting quality in the accounting, auditing and attestation services provided by the AICPA's members and their CPA firms, they wanted peer reviewers to retain the ability to continue to educate and inform firms as to their findings and corrective actions. To accomplish this, the PRB expanded the use of existing peer reviewer working paper documentation (outside of the reporting and acceptance process) to communicate matters to the reviewed firm that don't affect the peer review report issued. This written mechanism allows peer reviewers to offer substantive comments and recommendations on the firm's practices on such matters, and for firms to provide meaningful responses to those matters, comments and recommendations.

It also provides transparency---in this sense, we mean that it is more transparent in reading the report what the quality of the firm's practice is. It promotes consistency and efficiency and will force a reviewer to ask threshold questions as it relates to what type of report to issue.

The new process involves the use of the following forms:

- a. Matter for Further Consideration (MFC) form (See Exhibit 1 at the end of the exposure draft)

- i. This form will be used similarly to how it is used under the current *Standards*.
- b. Disposition of MFC (DMFC) form (See Exhibit 2 at the end of the exposure draft)
  - i. The purpose of this new form is to ensure that all MFCs have been addressed and to document how they have been resolved. This form does not require further descriptions or explanations of the MFCs.
  - ii. The form is a simple matrix whereby the reviewer lists the number assigned to each MFC and notes whether it was included in the report (and if so which item #), OR included in a Finding for Further Consideration (FFC) (see c. below), (and if so which one), OR another disposition of the MFC has occurred.
  - iii. The DMFC is a section of the Summary Review Memorandum in a System Review and the Review Captain's Checklist in an Engagement Review and thus is part of the peer reviewer's working papers. This form is reviewed by the administering entity's technical reviewer and submitted to the peer review committee.
- c. Finding for Further Consideration (FFC) form (See Exhibit 3 at the end of the exposure draft)
  - i. The FFC is prepared in connection with a System Review if there are findings that the team captain believes resulted in conditions where there was more than a remote possibility that the firm would not perform and/or report on engagements in conformity with applicable professional standards, but were not of such significance to include in a report with a peer review rating of pass with deficiencies or fail. This is very similar to the consideration in determining whether a letter of comment is appropriate in the current System Review reporting model.
  - ii. The FFC is prepared in connection with an Engagement Review if there are findings that the review captain believes resulted in financial statements or information, related accountant's reports submitted for review or the procedures performed not being performed in conformity with applicable professional standards, that are not deemed to be significant deficiencies and were not of such significance to include in a report with a peer review rating of pass with deficiencies or fail. This is also very similar when determining whether a letter of comment is appropriate in the current Engagement Review reporting model.
  - iii. The FFC form:
    - a. Provides a description of the finding, including whether it is a repeat, and the team captain's/review captain's recommendation on the finding(s).
    - b. Identifies which MFCs are covered in the finding (as more than one MFC may generate a single finding due to a similar underlying cause in a System Review or similar situations on an engagement in an Engagement Review).

- c. Includes the reviewed firm's response which must describe the actions planned or taken.
  - d. Is signed by an authorized representative of the firm (not just the engagement partner necessarily).
- iv. The peer reviewer may use his or her professional judgment in writing the descriptions of matters and recommendations contained in this form. As long as it is completed in its entirety, includes the essential elements, is written in an understandable manner and contains an appropriate response from the firm, it is expected that the administering entity would not request the form to be revised.

Guidance for the use of these forms is also illustrated by flowcharts in the proposed *Standards*.

The MFC, DMFC and FFC forms are reviewed by the administering entity, and its peer review committee will determine if it should require any remedial, corrective actions in addition to those described by the reviewed firm in its response in this documentation. If the peer review committee determines that additional actions to be taken by the firm are appropriate, the firm will be required to evidence its agreement to perform these corrective action(s) in writing and complete the action(s) as a condition of cooperation with the administering entity and the PRB in all aspects of the review. Although agreeing to and completing such action(s) are not tied to the acceptance of the peer review, should a firm fail to cooperate, the firm would be subject to due process procedures that could result in the firm's enrollment in the Program being terminated. The resulting DMFC and FFC forms, as well as any correspondence relating to additional actions to be taken by the firm related to these documents, are a part of the peer reviewer's working papers and are outside of the reporting and acceptance process. These documents are not made publicly available, just as other peer reviewer working papers are not made publicly available. However, they are subject to oversight and will be retained by the administering entity (and should also be retained by the peer reviewer) in the administrative files until the completion of the next review, and will be considered in the performance of that review.

#### *Eliminates the Separate Letter of Comments*

Since "findings" currently reflected in letters of comments (LOC) are often confusing and misunderstood when read with a "clean" unmodified peer report when by their nature, the findings included in the LOC are not of such significance to affect the opinion or type of report issued, the PRB proposes that LOCs are no longer necessary based on the new procedures discussed above.

The PRB recognizes that the types of findings currently included in a LOC (that don't affect the opinion or type of report issued) are still very important to communicate to a firm so it may use the information to improve the quality of its accounting and auditing practice. The PRB believes the new procedures described above enhance the existing process of communicating such findings to a reviewed firm.



It is important for the reviewed firms and the public, including governmental entities and regulators, to have access to understandable peer review results that clearly articulate the quality of the CPA firm's practice. The PRB believes that the proposed changes meet these objectives and that the users of the peer review report will still have the information they need to make informed decisions about reviewed firms.

The PRB discussed whether some may interpret these recommendations as being less transparent, since the findings formerly in the letters of comments would no longer be a part of the reporting process. The PRB concluded that the process is actually enhanced as reviewed firms and users of the peer review report will be able to focus on the deficiencies and significant deficiencies identified in the report and the reviewed firm will also be able to focus on matters in the MFC and FFC forms.

5. More Understandable and Easier to Use Peer Review Reporting Model (See Paragraphs 87 through 90, 94 through 97, 117 through 123 and Appendices C through N)

The PRB has received input from many sources, including reviewed firms, peer reviewers, technical reviewers, peer review committee members and other users of peer review information, as well as the AICPA BOD Peer Review Task Force, that the reporting model needs to be significantly revised. The PRB also recognizes that regulators that use the results of peer review expect certain types of information to remain in the peer review report. As a result of this feedback, the PRB concluded to propose a reengineered reporting model with a report that is more understandable and thus easier to use.

The new report:

- a. Identifies the type of peer review report (System Review Report or Engagement Review Report) at the top of the report.
- b. Shortens the length of the report.
- c. Contains language that is intended to be easier to understand.
- d. Requires very little tailoring.
- e. Makes reference to a URL for the *Standards* for a "plain English" description of the nature, objectives, scope, limitations of and procedures performed on the peer review (rather than this information being detailed in the report or an attachment).
- f. Revises the "grading" of peer review reports from Unmodified, Modified and Adverse to peer review ratings of Pass, Pass with Deficiencies, and Fail, respectively. The peer review rating is clearly indicated in the opinion paragraph in a System Review and in the second paragraph in an Engagement Review. The *Standards* discuss forming conclusions on the different types of reports to issue on System and Engagement Reviews. The PRB recognizes that some of the existing peer review terminology is included in various regulatory and governmental body statutes, rules and standards and that revising the terminology in the *Standards* may mean regulators and other governmental bodies would

need to reevaluate such matters. This is one reason why the PRB's proposed revisions to the grading of reports, including for unmodified reports but particularly for modified and adverse reports, is really more of a name change that can be bridged to the proposed terminology of pass, pass with deficiencies and fail, respectively.

- g. Maintains the existing peer review report format whereby the report is a stand-alone document that discloses the deficiencies or significant deficiencies affecting the type of report issued.
- h. Includes no comments, deficiencies, significant deficiencies or recommendations when the report has a peer review rating of pass.
- i. When the report has a peer review rating of pass with deficiencies or a peer review rating of fail:
  - The report includes written descriptions of deficiencies (pass with deficiencies report) or significant deficiencies (fail report) and a recommendation(s) for the reviewed firm to consider as a method of correcting the deficiencies or significant deficiencies. These descriptions are written similarly as to how they are written in a modified or adverse System or Engagement Review report under the current *Standards*.
  - The written descriptions include the captions "deficiencies" and "recommendations".
  - For a System Review, the descriptions of the deficiencies or significant deficiencies are systemically written and the recommendation leans toward correcting the cause of the deficiencies or significant deficiencies.
  - On both System and Engagement Reviews, reviewed firms are required to submit appropriate responses addressing the deficiencies or significant deficiencies contained in the report.
  - The industry and level of service are to be identified in the report when a deficiency or significant deficiency is industry specific. However, identification in the report of "substandard" engagements, along with this information specific to those engagements, has been deemed unnecessary. For System Reviews, this is due to an increased systems oriented focus. If a team captain determines that an industry specific finding rises to the level of a deficiency, the industry and level of service affected will be included in the report's description of the deficiency. However, a non industry specific finding noted within an industry must be determined to apply system wide before it is included in the report, and then this information is not included. To promote consistency, this same approach is also applied to Engagement Reviews.
- j. Eliminates the reference from the peer review report to any other documents except for the reference to the *Standards*.

6. Report Reviews Folded into Engagement Reviews in Conjunction with Other Engagement Review Modifications (See Paragraphs 29, 102 through 109 and Appendices J through N)

After considering five years of Report Reviews and the current goal of trying to make the peer review reporting process as consistent as possible, the PRB determined that it would be beneficial, and to facilitate consistency in the reporting process, to fold Report Reviews into the Engagement Review process.

Since Report Reviews currently require comments and recommendations to be agreed upon prior to the issuance of the written report, the PRB believes that requiring a separate letter of response when there is a report with a rating of pass with deficiencies or fail, rather than the firm just signing the bottom of the report, would not be a significant revision or create a significant additional cost to the process, in particular considering the elimination of the separate letter of comment and new procedures discussed above regarding communication of findings that do not affect the report.

After concluding that the reports on Engagement and Report Reviews would now be almost identical, the main differences remaining between the two types of peer reviews relate to the evaluation of documentation and the technical review and committee acceptance process.

*Evaluation of Documentation*

Engagement Reviews include reading the financial statements or information submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations and the applicable documentation required by professional standards. However, under the proposed revisions, for compilation engagements performed under the *Statements on Standards for Accounting and Review Services* (including full disclosure compilations and compilations that omit substantially all disclosures) the review captain evaluates the firm's documentation required by professional standards via reviewing background and engagement profile information, representations made by the firm and inquiries, rather than reading the actual documentation. Therefore, while documentation is being evaluated on all compilations, which wasn't done previously on Report Reviews, the procedures are different than in the past for compilations on Engagement Reviews. The reviewer may request to review the documentation required by professional standards on a compilation if the reviewer has cause to believe that, although the reviewed firm has represented compliance with the documentation requirements, the documentation may not have been prepared in accordance with applicable professional standards.

*Technical Review and Committee Acceptance Process*

A technical review is required to be performed by the administering entity on all peer reviews. However, committee consideration is not always required in an Engagement Review. The technical reviewer should be delegated the authority from the peer review committee to accept Engagement Reviews on the committee's behalf when the technical reviewer determines that there are no Matter for Further Consideration (MFC) forms prepared and that there were no other issues associated with the review warranting committee consideration. Such peer reviews are expected to be accepted by the technical reviewer (or the committee if it does not delegate the authority to the technical reviewer), within 45 days

of receipt of the report from the reviewed firm. Peer review committee consideration will still be required in all System Reviews.

#### *Other Engagement Review Enhancements*

- The PRB has received significant feedback on what should constitute a repeat finding in an Engagement Review. After considering this further, the PRB has determined that when there are any disclosure deficiencies or significant deficiencies on two consecutive Engagement Reviews, for them to be considered a repeat, the disclosure deficiency(s) or significant deficiency(s) should be the same kind or very similar and not just any back-to-back disclosure deficiency(s) or significant deficiency(s). This definition is also applicable to presentation and measurement deficiencies and significant deficiencies in an Engagement Review.
- What results in a report with a peer review rating of pass with deficiencies and a peer review rating of fail is similar to modified and adverse reports currently, however under the proposed *Standards*, when the exact same significant deficiency (just one) occurs on each of the engagements submitted for review, the PRB has concluded that when there are no other significant deficiencies, a report with a peer review rating of pass with deficiencies would be issued rather than a report with a peer review rating of fail. The PRB believes that this is a fair and appropriate method of handling this situation.
- The description of the objective of an Engagement Review now states that it is to “evaluate” whether the engagements submitted for review were performed and reported in conformity with applicable professional standards in all material respects, rather than to “provide the reviewer with a reasonable basis for expressing limited assurance”, which is language more appropriate when discussing a system of quality control. The peer reviewer expresses no assurance on the firm’s system of quality control in an Engagement Review.
- An Engagement Review report indicates that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with professional standards in all material respects. Even though the reviewer’s responsibility is not to evaluate or provide any level of assurance on the firm’s system of quality control, the PRB believes this to be important information for inclusion in the report.
- Regarding Organizing the Peer Review Team (paragraph 29), the PRB considered whether use of the term “reviewer” as it relates to an Engagement Review could be confused with “reviewers” of engagements. As such, the individual responsible for an Engagement Review is now referred to as the “review captain”.

#### 7. Use of the *Standards* by Certain Approved Administering Entities and Current Enrollment Eligibility Requirements (See Paragraph 1 and Interpretation 1)

This information is not a change to the *Standards* but it helps to clarify that PRB approved administering entities may use these *Standards*, as applicable, in administering peer reviews

of non-AICPA firms. Administering entities should not imply that these firms are enrolled in the AICPA PRP. The PRB will issue additional guidance in this area to assist approved administering entities who also administer peer reviews for non-AICPA firms. In addition, the Interpretations discuss that firms in which at least one partner is a member of the AICPA, and in certain circumstances individual AICPA members, may enroll in the Program.

8. Peer Review Teams Must have the Capability to Perform a Peer Review (See Paragraphs 27 and 28)

Although the term “capability” is new to the *Standards*, the concept of the peer review team needing the appropriate expertise, experience and other qualifications is not. In the past few years, the PRB has changed some of the questions on the reviewed firm’s background information form and the reviewer resume form in order to better match up the peer reviewer and the potential reviewed firm. The PRB will continue to require that for peer review teams to be approved, they must collectively have experience in certain practice areas and industries determined by the PRB in order to assist with their risk assessment and engagement selection process, even though the peer review team may not need to select all of the firm’s practice areas or industries. In addition, specific questions have also been added to these forms in the areas of governmental and ERISA to assist firms, reviewers and the administering entities in making decisions on whether the peer review team has the experience and capabilities to perform the peer review. This is in addition to and different from the requirement for certain types of engagements to be selected on every peer review as discussed in the Interpretations.

9. Qualifications for Service as a Peer Reviewer (See Paragraph 31 and Interpretation 14)

The PRB noted that reviewers are sometimes used for functions that go beyond reviewing engagements, such as the performance of interviews or the review of functional areas. This is considered a valuable training ground for new peer reviewers, team captains and review captains. These reviewers work under the supervision of a qualified team captain or review captain and their work is reviewed to the extent necessary under the circumstances, as required by the *Standards*. Administering entities perform oversight over peer reviews and reviewers. As such, the requirement for completion of a training course or courses by reviewers when the function of the reviewer is other than reviewing engagements has been eliminated.

10. Peer Reviewer Resumes and Oversight of Peer Reviewer Information (See Paragraph 31f and Interpretation 14)

The PRB has explicitly added to the *Standards* guidance for peer reviewers to provide the administering entity with information that accurately reflects the qualifications of the reviewer, including recent industry experience, and is updated timely. The Interpretations state that this is ordinarily accomplished by completion of a peer reviewer resume. This procedure can be performed on-line to facilitate the timeliness and efficiency of the process. In addition, as a part of the PRB’s enhanced oversight procedures, all resumes are subject to verification. Peer reviewers may be asked to submit additional details in writing describing their experience in the practice areas and industries indicated in the resume as well as

evidence of compliance with the continuing professional educational requirements described in the Interpretations. The submission of resume information may also be accomplished by providing similar information to those performing an on-site oversight under the direction of a National PRC panel.

11. Restrictions and Limitations of Practices and Communications Related to Allegations or Investigations in the Conduct of Accounting, Auditing and Attest Engagements (See Paragraph 34 and Interpretation 14)

After considerable discussion, the PRB enhanced the guidance related to restrictions and limitations of practices and communications related to allegations or investigations. It recognizes that these situations may impact the reviewer or reviewing firm's ability to perform the peer review. However, if the limitation or restriction has been placed on the firm, or one or more of its offices, current guidance does not allow any of the individuals associated with the firm, or the portion thereof, to serve as reviewers. The PRB acknowledges that this may be too restrictive and as such proposes that the administering entity must carefully consider the specific circumstances, so as to evaluate whether any of the individuals associated with the firm, or the portion thereof, may serve as reviewers.

In addition, the PRB clarified guidance related to communications relating to allegations or investigations in the conduct of accounting, auditing or attestation engagements in the *Standards* such that it is applicable to those from regulatory, monitoring and enforcement bodies. The general reference to "litigation" has been removed due to the extent of potentially frivolous litigation. However, any litigation that may be relevant to the peer review should be discussed with the team captain or reviewer. The PRB also clarified that the administering entity should be informed of communications relating to allegations or investigations, but that the fact that a reviewer has received such communication(s) does not automatically mean that he or she is ineligible to perform peer reviews. The administering entity will consider the matter, including whether any action, including performing oversight on the reviewer, is appropriate.

12. Associations of CPA Firms in the Peer Review Process (See Paragraph 26 and Interpretation 12)

The role of associations (which in this context excludes state CPA societies/approved administering entities) has caused confusion in the past and the proposed revisions are intended to clarify their existing role. The current *Standards* only loosely refer to associations but the proposed *Standards* describe associations and what their role is in the peer review process. Associations do not administer or oversight the CPCAF PRP or the AICPA PRP. An AICPA member firm of an association may conduct a peer review of another association member firm enrolled in the Program, provided that it receives approval from the PRB. Annually, the association must submit an Association Information Form (AIF) to the PRB which must be accepted by the PRB prior to any aspect of the review being formed, scheduled, or performed. Previously, associations submitted a Plan of Administration. The AIF contains questions regarding general information about the association, independence matters and whether the association will be requesting to be approved in assisting the

administering entity in forming review teams or providing technical assistance to such review teams.

13. Audits of Non-SEC Issuers Performed Pursuant to the Standards of the Public Company Accounting Oversight Board (PCAOB) (See Paragraphs 6, 7, 12 and Interpretation 8)

The PRB has added audits of non-SEC issuers performed pursuant to the standards of the PCAOB to the list of engagements which fall within the scope of a peer review. The PCAOB has been designated by AICPA Governing Council as a body to promulgate technical standards as discussed in AICPA *Professional Standards* ET Appendix B. Since audits of non-SEC issuers may be performed pursuant to the standards issued by the PCAOB, such engagements would be included in the potential scope of a peer review. However, for audits of non-SEC issuers, including those performed pursuant to PCAOB standards, the preparation and issuance of audit reports must be conducted in accordance with the AICPA Code of Professional Conduct and standards promulgated by the AICPA Auditing Standards Board (ASB). Audits of non-SEC issuers remain governed by generally accepted auditing standards (“GAAS”) and *Statements on Quality Control Standards* as issued by the ASB. The ASB has also issued guidance and interpretations on the applicability and integration of AICPA and PCAOB standards, including audits of non-SEC issuers.

14. Guidance Applicable to Firms with SEC Issuers (Exclusion of SEC Issuer Practice and Team Captain’s Responsibilities Regarding PCAOB Inspections) (See Paragraphs 7 and 40, Appendix B-1e and Interpretation 15)

In conjunction with expanding the Program to include the enrollment of firms currently enrolled in the CPCAF PRP, the *Standards* were expanded to address issues that are unique to those firms. For instance, the Standards note that they are not intended for and exclude the review of the firm’s accounting and auditing practice and system of quality control applicable to SEC issuers. However, where a firm has the same system of quality control for its SEC issuer and non-SEC issuer practices, the system of quality control is still evaluated.

The *Standards* also note that the team captain should discuss, with appropriate reviewed firm personnel, the reports submitted to the firm by the PCAOB or, in the absence of such a report, any findings that may have been communicated orally by the PCAOB to the firm. The team captain should consider what effects, if any, these matters could have on the firm’s non-SEC issuer practice and the impact on peer review planning and other procedures.

15. Reviewed Firm Representation Letters (See Paragraphs 5f, 40, 106 and Appendix B)

The PRB reaffirmed the value and purpose of the representation letter for the peer review. The team captain/review captain obtains representations from management of the reviewed firm to describe matters significant to the peer review in order to assist in the planning and performance of and the reporting on the peer review. The existing guidance provides the representation letter to be obtained. The proposed guidance notes that specific representations should relate to the same matters, although the firm is not prohibited from making additional representations and the firm may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made. Other

representations obtained by the team captain/review captain will depend on the circumstances and nature of the peer review. The proposed guidance also provides an illustration of a representation letter that has been tailored to report to the team captain a matter of non-compliance with a regulatory requirement and notes that the firm may tailor that language and may refer to attachments to the letter as long as adequate representations pertaining to the matters discussed above, as applicable, are included to the satisfaction of the team captain/review captain.

16. Documentation retention period from 90 days to 120 days (See Paragraphs 24 and 25 and Interpretation 11)

The PRB revised the documentation retention period from 90 days to 120 days in order to align with FDICIA requirements.

17. Performing and Reporting on Peer Reviews of Quality Control Materials and Continuing Professional Education Programs (See Paragraphs 154 through 176 and Appendices O-Q)

Few reviewers actually perform these types of peer reviews. However, due to the far reaching impact that quality control materials and continuing professional education programs have on firms' systems of quality control, in particular those that are widely utilized by many CPA firms, the PRB recognizes the significance of these types of peer reviews. Since the current *Standards* did not address them because historically they have been administered by the CPCAF PRP, high level guidance was incorporated into the proposed *Standards* from the SECPS *Standards for Performing and Reporting on Peer Reviews* for peer reviews of these materials and programs. In addition, as applicable, the new reporting model for System Reviews and Engagement Reviews has been incorporated into the guidance. Thus, the related reports are now shorter, more concise, and do not contemplate a separate letter of comments. Peer reviews of quality control materials and continuing professional education programs are only administered through the National PRC.

18. Internal Inspections and other Monitoring Procedures Performed by Peer Reviewers (See Interpretation 10: 21-3, 21-11 and 21-12)

The PRB concluded to change guidance so that a firm performing a firm's internal inspection cannot perform the firm's peer review, unless the internal inspection is being performed by the firm as a follow up action requested by the PRB. This change was prompted by the PRB's concern that an individual and his/her firm becomes part of a firm's monitoring procedures when performing that firm's internal inspection. The individual and his/her firm then risks losing their independence, integrity and objectivity in having to evaluate that same monitoring process (in essence, their own work) and how it impacted the system of quality control or the engagements performed and reported upon by the firm. The PRB considered that the inspection is performed post review, and also considered the limitations that this change might impose on firms who would need to change either internal inspectors or peer reviewers to comply with this guidance. However, the PRB concluded that this change would strengthen the Program and its credibility more significantly than the limitations discussed above.



## **Other Matters Considered by the AICPA PRB**

### **1. Qualifications of Peer Reviewers**

The PRB recognizes that having an appropriate number of qualified and experienced peer reviewers is critical to the success of the Program. As noted in the AICPA BOD Task Force Report which is available on the AICPA website at ([http://www.aicpa.org/download/transparency/BOD\\_TF\\_Report.pdf](http://www.aicpa.org/download/transparency/BOD_TF_Report.pdf)), there is concern about the diminishing number of qualified peer reviewers and the lack of young CPAs becoming peer reviewers. The PRB's Education and Communication Task Force is currently attempting to address the declining reviewer pool.

At the same time, the PRB has received recommendations to consider setting additional minimum requirements to qualify as a peer reviewer as a mechanism to enhance the quality and consistency of peer reviewers' work. The PRB believes the most effective way to accomplish this objective is through the various extensive oversight procedures performed on peer reviewers.

### **2. Rating/Grading of Peer Review Reports**

The PRB discussed several different alternatives to the proposed new report ratings of pass, pass with deficiencies and fail. These included numerical and letter grading concepts, as well as terms such as acceptable and unacceptable, excellent, satisfactory and unsatisfactory, good, bad, etc. The proposed new report ratings were determined to be simple, concise and understandable.

### **3. Committee Appointed Review Teams**

The PRB reconsidered allowing Committee Appointed Review Teams (CART reviews), in addition to firm-on-firm reviews (where the reviewed firm hires a peer reviewer approved by the administering entity) for System Reviews. Based on extensive past experience, the PRB decided that CART reviews would not be conducive to an effective and efficient System Review process. Coordinating significant numbers of peer reviews with team members from different firms who usually have not worked together has not proven to be successful, and most administering entities discontinued these types of review teams prior to the PRB eliminating them a couple years ago. These peer reviews are difficult to schedule, often are significantly delayed when the reviewed firm must reschedule, and when there are issues to be resolved it is usually more difficult to get the review team together once again to discuss. In addition, coordinating multi-office and multi-state peer reviews when using reviewers from different firms has also proven to be problematic. Therefore, the PRB concluded that CART reviews would remain an option only for Engagement Reviews.

4. Extension of Time to Correct Deficiencies Prior to Finalizing the Peer Review Report

The PRB considered a reporting model whereby firms receiving a peer review report with a peer review rating of pass with deficiencies or a peer review rating of fail would receive 12 months or some other time frame to rectify the problems noted in the report, and if then properly corrected, a final report of pass would be issued. However, in addition to the overall reengineering of the peer review reporting process, including the fact that matters that don't affect the opinion or type of report issued have been removed from the reporting process, the PRB believes that deficiencies or significant deficiencies that affect the opinion or type of report issued are important to users of peer review information and should be included and remain in the peer review report.

5. Including Comments in a System Review Report with a Peer Review Rating of Pass

The PRB considered proposing a fourth type of report on System Reviews, one with a peer review rating of pass that would also include comments that don't affect the opinion, issued under very specific circumstances. For example, there may be circumstances where the firm performs engagements in an industry that only represents 4% of the firm's accounting and auditing practice, yet the firm might have pervasive deficiencies or significant deficiencies that are limited only to that industry and the systemic cause (and there may be none) does not extend to other parts of the firm's practice. This raises the first question as to whether such deficiencies or significant deficiencies (assuming there are no other related deficiencies or significant deficiencies on the peer review) would affect the opinion issued on the peer review. The PRB believes that although there are many factors, including professional judgment, in determining whether a report with a peer review rating of pass with deficiencies or fail is appropriate in such an example, the *Standards* dealing with such matters must be fully considered in the particular circumstances.

Should the deficiencies or significant deficiencies in the previous paragraph not affect the opinion issued on a particular peer review, the second question that arises is whether such matters should be disclosed in a System Review report with a peer review rating of pass. The PRB decided that although there may be some merit in including such issues in a report with a peer review rating of pass, having a report with comments not affecting the opinion would be confusing to users and would continue to raise the concerns that exist today with letters of comments issued with "clean" unmodified reports. The PRB believes that to enhance the understandability and consistency of peer review reports, only matters affecting the opinion issued in a System Review or the type of report issued in an Engagement Review should be included in the peer review report.

6. Three Year Peer Review Cycle

The current three-year peer review cycle, and whether to extend it in certain circumstances, was discussed again by the PRB, as it has been during the last several exposure draft processes. The PRB continues to believe that a three-year peer review cycle is appropriate for two primary reasons. First, most regulators that require peer review have a three-year peer review cycle requirement and due to the number of firms that practice in multiple licensing

jurisdictions, extending the cycle formally beyond three years creates mobility issues. Secondly, past performance is not always an indication of future performance, particularly when considering the thousands of firm mergers and dissolutions that take place each year, in addition to personnel turnover and the volume and complexity of ever-changing professional standards. The three-year peer review cycle seems to be working effectively. Where appropriate, based on the results of a peer review, an administering entity's peer review committee can shorten the period of when a firm's next peer review is due (that is, request an accelerated review).

#### 7. Peer Review Team Captain/Review Captain Rotation

The PRB discussed the benefits and challenges of limiting the number of consecutive peer reviews a team captain/review captain could perform for a firm and whether there should be a requirement for rotation.

The benefits of requiring team captain/review captain rotation might include:

- Reviewing engagements and the firm's system of quality control with a "fresh set of eyes"
- Eliminating a perceived lack of independence in appearance between the reviewed firm and the continuing team captain/review captain
- Identifying team captains/review captains that may not be able to identify deficiencies or significant deficiencies on engagements

The challenges of team captain/review captain rotation might include:

- Reducing the number of available qualified and experienced team captains/review captains
- Placing smaller reviewing firms with limited numbers of partners, especially sole practitioners, at a disadvantage as larger firms would be able to rotate peer review team members within their firm
- Finding team captains/review captains to perform peer reviews for firms that are geographically isolated

The PRB determined that with the oversight processes in place and continuously being reassessed, that for most firms, team captain/review captain rotation is not necessary. On System Reviews, the peer review team can gain a greater familiarity with the reviewed firm, thus improving their ability to diagnose weaknesses in the firm's system of quality control. It also allows for improved follow-up in subsequent peer reviews to better assess if the firm has followed through in the effective implementation of prior peer review recommendations.

However, the PRB determined that a certain population of firms will be able to overcome the challenges described above to team captain/review captain rotation so that for those firms, it is yet another way to ensure the quality of a peer review. That population consists of firms with greater than 400 professionals, with a professional defined as an individual who spends more than 25% of his/her time on accounting and auditing work that meets the criteria for a peer review. For those firms, an individual who serves as the firm's team captain or review

captain for two successive peer reviews may not serve in that capacity for the firm's next peer review. Since at this time, the only firms that meet these criteria are in the CPCAIF PRP, which currently has a team captain rotation requirement, there is no effect for firms currently enrolled in the AICPA PRP. However, firms currently in the CPCAIF PRP who have previously had to comply with the team captain requirement would no longer be required to do so under the proposed revisions unless they meet the criteria above.

#### 8. Services in the Scope of Peer Review

The PRB agreed with the AICPA BOD Peer Review Task Force recommendation that no additional types of services (such as tax, management consulting and litigation support) be added to the existing peer review scope. All services performed by a CPA firm are important. However, in most cases, an individual doesn't need to be a CPA to perform non-accounting and non-auditing services, and subjecting a firm to peer review those other services would put CPA firms at a competitive disadvantage. Also, given the diversity and specialization of firms and practices, it would be a monumental task to review other aspects of a practice beyond attest and compilation services. In addition, there appears to be no overwhelming request from the public or state and federal regulators for peer review to cover other aspects of a firm's practice.

#### 9. Other Considerations in an Engagement Review

The PRB considered whether expansion of scope, either to other full engagements or specific areas of other engagements, should be permitted as a part of the consideration when determining whether a report with a peer review rating of pass or pass with deficiencies should be issued, rather than a report with a peer review rating of pass with deficiencies or fail, respectively. Feedback has been communicated to the PRB that this should be considered due to the current low threshold of when reports with other than a peer review rating of pass (unmodified) are issued. The PRB determined that scope expansion should not be a part of an Engagement Review primarily because this type of review is not intended to evaluate the reviewed firm's system of quality control, but just evaluate a very small sample (usually two or three) of the firm's engagements. In addition, if one or more engagements had a deficiency, it raises the questions of how many more engagements would have to be reviewed, and the need for a reviewer to weight the engagements in some manner and use a risk based approach to make some other sort of conclusion on the type of report to issue. This creates a strong risk that peer reviewers would handle this inconsistently, and potentially, based on whether the firm wanted to pay for extra engagements to be reviewed. Although the PRB did not add scope expansion to the *Standards*, it did change the parameters, as discussed in this exposure draft, for what constitutes a repeat finding and certain circumstances when a report with a peer review rating of fail would not be required to be issued.

Another matter the PRB considered was whether the report on the Engagement Review should be tailored to indicate specifically whether the firm had full or "omit disclosure" compilations, reviews and/or the various types of services performed under *Statement on Standards for Attestation Engagements*. In order to keep the peer review report simple yet informational, the PRB does not believe that it is necessary to tailor the first two paragraphs of the Engagement Review report to describe further the scope of the peer review as it relates

to the types of services a firm provides. However, the *Standards* will continue to require for reports with a peer review rating of pass with deficiencies or a peer review rating of fail that the deficiencies and significant deficiencies indicate the level of service and industry of the applicable engagements when it is primarily attributable to a specific industry.

10. Changing the Name of Peer Review

The PRB believes that the name “peer review” is appropriate and does not need to be changed. Although some other organizations, governmental bodies and regulators refer to peer review by other names, “peer review” is widely known and accepted and there does not appear to be any significant reason to change the name.

**PROPOSED  
AICPA STANDARDS FOR PERFORMING  
AND REPORTING ON PEER REVIEWS**

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## TABLE OF CONTENTS

	Page
Notice to Readers .....	6
Overview.....	7
Summary of the Nature, Objectives, Scope, Limitations of and Procedures Performed in a System Review or an Engagement Review.....	7
Introduction and Scope .....	7
General Considerations .....	9
Administrative Requirements .....	9
Timing of Peer Reviews.....	9
Confidentiality .....	10
Independence, Integrity, and Objectivity .....	10
Due Professional Care .....	10
Peer Review Documentation and Retention Policy .....	10
Organizing the System or Engagement Review Team .....	11
Qualifying for Service as a Peer Reviewer .....	11
System and Engagement Reviewers.....	11
Team Captain or Review Captain.....	13
Other Peer Reviewer or Reviewing Firm Qualification Considerations.....	13
Performing System Reviews .....	13
Objectives .....	13
Basic Requirements .....	14
Planning Considerations .....	15
Understanding the Firm's Accounting and Auditing Practice and System of Quality Control .....	15
Understanding and Assessing Peer Review Risk Factors.....	16
Planning and Performing Compliance Tests .....	17
Identifying Matters, Findings, Deficiencies and Significant Deficiencies (Including Exhibit A).....	20
Aggregating and Systemically Evaluating Matters .....	23
Forming Conclusions on the Type of Report to Issue in a System Review.....	26
Communicating Conclusions at the Exit Conference .....	27
Addressing Disagreements Between the Reviewer and the Reviewed Firm .....	27
Reporting on System Reviews .....	28
General .....	28
Preparing the Report in a System Review .....	28
Firm Responses in a System Review .....	29
Performing Engagement Reviews .....	30
Objectives .....	30
Basic Requirements .....	30
Identifying Matters, Findings, Deficiencies and Significant Deficiencies (Including Exhibit B).....	32
Addressing Disagreements Between the Reviewer and the Reviewed Firm.....	35
Reporting on Engagement Reviews .....	36



## Guidance for Performing and Reporting on Peer Reviews

Forming Conclusions on the Type of Report to Issue in an Engagement Review .....	36
General .....	37
Firm Responses in an Engagement Review.....	38
Administering Peer Reviews .....	39
Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities .....	39
Accepting System and Engagement Reviews .....	41
Cooperating with the Administering Entity and the Board .....	41
Publicizing Peer Review Information .....	42
Evaluating Peer Reviewers' Performance.....	42
Performing and Reporting on Peer Reviews of Quality Control Materials (QCM)	
and Continuing Professional Educational (CPE) Programs .....	44
Introduction .....	44
Objectives of a Peer Review of Quality Control Materials or CPE Programs .....	44
Applicability .....	45
Qualifications for Serving as QCM or CPE Reviewers .....	45
Procedures for Performing QCM or CPE Reviews .....	45
Reporting on QCM or CPE Reviews .....	46
Provider Responses on QCM and CPE Program Reviews .....	49
Effective Date .....	49

## Appendices

A. Summary of the Nature, Objectives, Scope, Limitations and Procedures Performed in System and Engagement Reviews and QCM and CPE Program Review .....	50
B. Considerations and Illustrations of Firm Representations .....	54
C. Illustration of a Report with a Peer Review Rating of Pass in a System Review .....	57
D. Illustration of a Report with a Peer Review Rating of Pass with Deficiencies in a System Review .....	58
E. Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Pass with Deficiencies in a System Review .....	60
F. Illustration of a Report with a Peer Review Rating of Pass with Deficiency for a Scope Limitation in a System Review.....	62
G. Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Pass with Deficiency(ies) for a Scope Limitation in a System Review.....	64
H. Illustration of a Report with a Peer Review Rating of Fail in a System Review .....	65
I. Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Fail in a System Review .....	67
J. Illustration of a Report with a Peer Review Rating of Pass in an Engagement Review.....	69
K. Illustration of a Report with a Peer Review Rating of Pass with Deficiencies in an Engagement Review.....	70

## Standards for Performing and Reporting on Peer Reviews

L. Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Pass with Deficiencies in an Engagement Review .....	72
M. Illustration of a Report with a Peer Review Rating of Fail in an Engagement Review.....	73
N. Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Fail in an Engagement Review .....	75
O. Illustration of a Report with a Peer Review Rating of Pass on a Peer Review of Quality Control Materials or CPE Programs.....	76
P. Illustration of a Report with a Peer Review Rating of Pass with Deficiencies on a Peer Review of Quality Control Materials or CPE Programs .....	77
Q. Illustration of a Report with a Peer Review Rating of Fail on a Peer Review of Quality Control Materials or CPE Programs.....	79

**NOTICE TO READERS**

In order to be admitted to or retain their membership in the American Institute of Certified Public Accountants (AICPA), members of the AICPA who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as partners or employees of firms enrolled in an approved practice-monitoring program or, if practicing in firms not eligible to enroll, are themselves enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA's practice-monitoring Standards and the firm or individual issues reports purporting to be in accordance with AICPA professional standards.

Firms have peer reviews because of the public interest in the quality of the accounting, auditing and attestation services provided by public accounting firms. In addition, firms indicate that peer review contributes to the quality and effectiveness of their practices.

A firm (or individual) enrolled in the AICPA Peer Review Program (Program) is deemed to be enrolled in an approved practice-monitoring program (See sections 2.2.3 and 2.3.4 and 7.6 of the AICPA Bylaws, The Code of Professional Conduct Rule 505, and the implementing council resolutions under those sections).

These Standards are applicable to firms (and individuals) enrolled in the Program and to individuals and firms who perform and report on such peer reviews, to entities approved to administer the peer reviews, and to associations of CPA firms authorized by the Board to assist its members in forming review teams. These Standards are not intended for peer reviews of organizations that are not public accounting firms.

Users of these Standards should be knowledgeable about the Standards and their Interpretations and effective dates, as well as guidance issued by the AICPA Peer Review Board that might affect the application of these Standards. Users should be prepared to justify departures from these Standards and it is expected that departures will be rare.

These Standards are effective for peer reviews commencing on or after January 1, 2009. Early implementation of these Standards is not permitted.

## Overview

### Summary of the Nature, Objectives, Scope, Limitations of and Procedures Performed in a System Review or an Engagement Review (as referred to in a Peer Review Report)

1. The purpose of this document is to provide *Standards* for administering, planning, performing, reporting on and the acceptance of peer reviews of CPA firms (and individuals) enrolled in the AICPA Peer Review Program (Program) (See Interpretations). Those processes collectively are also called “practice monitoring” since it is the monitoring of a CPA firm’s accounting and auditing practice.
2. The goal of monitoring, and the Program itself, is to promote quality in the accounting and auditing services provided by the CPA firms (and individuals) subject to these *Standards*. This goal serves the public interest and enhances the significance of AICPA membership.
3. Firms (and individuals) (See Interpretations) enrolled in the Program are required to have a peer review, once every three years, of their accounting and auditing practice related to non-SEC issuers covering a one-year period. The peer review is conducted by an independent evaluator. The AICPA oversees the Program and the review is administered by an entity approved by the AICPA to perform that role.
4. There are two types of peer reviews: System Reviews and Engagement Reviews. System Reviews focus on a firm’s system of quality control, while Engagement Reviews focus on work performed on selected engagements. A further description of these peer reviews as well as a summary of the nature, objectives, scope, limitations of and procedures performed in them is included in Appendix A.

### Introduction and Scope

5. Firms (and individuals) (See Interpretations) enrolled in the Program have the responsibility to —
  - a. Establish and maintain appropriate quality control policies and procedures, and comply with them to ensure the quality of their practices. Statement on Quality Control Standards No. 7 (SQCS No. 7), *A Firm’s System of Quality Control* (AICPA, *Professional Standards*, QC sec. 20), requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice.
  - b. Perform accounting and auditing engagements in accordance with applicable professional standards using competent professionals.
  - c. Have independent peer reviews of their accounting and auditing practices (See Interpretations). All firms that an AICPA member is associated with should undergo a peer review if the services performed and reports issued by the firm require a peer review.
  - d. Engage a peer reviewer to perform the peer review in accordance with these *Standards*, in a timely manner.
  - e. Take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality any time state statutes or ethics rules promulgated by state boards of accountancy

## Guidance for Performing and Reporting on Peer Reviews

- do not clearly provide an exemption from confidentiality requirements when peer reviews are undertaken.
- f. Provide written representations to describe matters significant to the peer review (See Appendix B “Considerations and Illustrations of Firm Representations”).
  - g. Understand the AICPA Peer Review Board’s (Board) guidance on resignations from the Program (See Interpretations).
  - h. Cooperate with the administering entity and the Board in all matters related to the peer review including arranging, scheduling, and completing the review, and taking remedial, corrective actions as needed (See Interpretations).
6. An accounting and auditing practice for the purposes of these *Standards* is defined as all engagements covered by *Statements on Auditing Standards* (SASs); *Statements on Standards for Accounting and Review Services* (SSARS)<sup>1</sup> (See Interpretations); *Statements on Standards for Attestation Engagements* (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office (GAO); and audits of non-SEC issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).
7. The objectives of the Program are achieved through the performance of peer reviews involving procedures tailored to the size of the firm and the nature of its practice. Firms that perform engagements under the SASs, *Government Auditing Standards*, examinations of prospective financial statements under the SSAEs or audits of non-SEC issuers performed pursuant to the standards of the PCAOB, have peer reviews called System Reviews. A System Review includes determining whether the firm’s system of quality control is designed and complied with in accordance with applicable professional standards, including SQCS No. 7. Firms that only perform services under SSARS and/or services under the SSAEs not included in System Reviews have peer reviews called Engagement Reviews.<sup>2</sup> Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the PCAOB, are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, these *Standards* are not intended for and exclude the review of the firm’s accounting and auditing practice applicable to SEC issuers. Firms that do not provide any of the services listed in paragraph 6 are not peer reviewed.
8. System Reviews are performed at the reviewed firm’s office; however, the Board has issued guidance as to when System Reviews may be performed at a location other than the reviewed firm’s office (See Interpretations). Engagement Reviews are normally performed at a location other than the reviewed firm’s office.
9. The Program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high-quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. On System Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies and significant deficiencies identified with their system of quality control or their compliance with the system, or both. On Engagement Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies and significant deficiencies identified in engagements. These actions will be positive and remedial. Disciplinary actions (including those that can result in the termination of a firm’s enrollment in the Program and the

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<sup>1</sup> SSARS that provide an exemption from those standards in certain situations are likewise excluded from this definition of an accounting and auditing practice for peer review purposes (See Interpretations).

<sup>2</sup> Although *Standards* no longer permit the performance of Report Reviews as of January 1, 2009, a firm’s last peer review could have been a Report Review.

subsequent loss of membership in the AICPA and some state CPA societies by its partners<sup>3</sup> and employees) will be taken only for a failure to cooperate, failure to correct inadequacies or when a firm is found to be so seriously deficient in its performance, that education and remedial, corrective actions are not adequate.

10. Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with the AICPA's peer review requirements.

11. Peer reviews are subject to oversight by the Board, the administering entity, and other bodies agreed upon by the Board and the administering entity. The objectives of oversight are to ensure compliance with the *Standards* and consistency in implementation.

## General Considerations

### Administrative Requirements

12. All peer reviews intended to meet the requirements of the Program should be carried out in conformity with these *Standards* under the supervision of a state CPA society, group of state CPA societies, the AICPA Peer Review Board's National Peer Review Committee (National PRC) (See Interpretations) or other entity (hereinafter, administering entity) approved by the Board to administer peer reviews.

### Timing of Peer Reviews

13. A firm's due date for its initial peer review is eighteen months from the date it enrolled in the Program or should have enrolled, whichever date is earlier (See Interpretations).

14. If a firm is enrolled in the Program, but does not perform engagements requiring it to undergo a peer review (see paragraph 6), it is not required to undergo a peer review. However, when a firm performs its first engagement requiring a peer review or its first engagement requiring it to have a System Review, the firm's next due date will be eighteen months from the year-end of that engagement (eighteen months from the report date if it is an attestation engagement including financial forecasts and projections) (See Interpretations).

15. A firm's subsequent peer review ordinarily has a due date of three years and six months from the year-end of the previous review.

16. The due date for a peer review is the date by which the peer review report, and if applicable, letter of response and the peer reviewer's materials are to be submitted to the administering entity.

17. Peer reviews must cover a current period of one year to be mutually agreed upon by the reviewed firm and the reviewing firm. Ordinarily, the peer review should be conducted within three to five months following the end of the year to be reviewed.

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<sup>3</sup> A partner is a proprietor, shareholder, equity or non-equity partner or any individual who assumes the risks and benefits of firm ownership or who is otherwise held out by the firm to be the equivalent of any of the aforementioned. Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as *shareholder*, *member*, or *proprietor*.

18. A firm is expected to maintain the same year-end on subsequent peer reviews (which is three years from the previous year-end) and the same review due date (which is three years from the previous review due date) (See Interpretations).

19. If a firm resigns from the Program and subsequently reenrolls in the Program, the firm's due date is the later of the due date originally assigned or ninety days after reenrolling.

## Confidentiality

20. A peer review should be conducted in compliance with the confidentiality requirements set forth in the section of the AICPA Code of Professional Conduct entitled "Confidential Client Information" (AICPA, *Professional Standards*, ET sec. 301). Except as discussed in paragraph 146, information concerning the reviewed firm or any of its clients or personnel that is obtained as a consequence of the review is confidential. Such information should not be disclosed, except as required by law, by review team members or by administering entities to anyone not involved in performing the review, or administering or carrying out the Program, or used in any way not related to meeting the objectives of the Program.

## Independence, Integrity, and Objectivity

21. Independence in fact and in appearance should be maintained with respect to the reviewed firm by a reviewing firm, by review team members, and by any other individuals who participate in or are associated with the review (See Interpretations). In addition, the review team should perform all peer review responsibilities with integrity and maintain objectivity in discharging those responsibilities.

22. *Independence* encompasses an impartiality that recognizes an obligation for fairness not only to the reviewed firm but also to those who may use the peer review report. The reviewing firm, the review team, and any other individuals who participate on the peer review should be free from any obligation to, or interest in, the reviewed firm or its personnel. The concepts in the AICPA Code of Professional Conduct's Article III, "Integrity," and Article IV, "Objectivity and Independence" (AICPA, *Professional Standards*, ET sections 54 and 55), should be considered in making independence judgments. *Integrity* requires the review team to be honest and candid within the constraints of the reviewed firm's confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. *Objectivity* is a state of mind and a quality that lends value to a review team's services. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest.

## Due Professional Care

23. Due professional care, as addressed by the AICPA Code of Professional Conduct's Article V, "Due Care" (AICPA, *Professional Standards*, ET sec. 56), should be exercised in performing and reporting on the review. This imposes an obligation on all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner.

## Peer Review Documentation and Retention Policy

24. Peer review documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached. The documentation provides evidence of the work performed and is the basis for the review of the quality of the work. It should demonstrate that the peer reviewer complied with these *Standards* and should support the basis for the peer reviewer's conclusions.

Also, the documentation should be appropriately organized to provide a clear link from the working papers to the peer review report (See Interpretations).

25. Peer review documentation should not be retained for an extended period of time after the peer review's completion, with the exception of certain documents that are maintained until the subsequent peer review's acceptance and completion (See Interpretations).

## **Organizing the System or Engagement Review Team**

26. A review team may be formed by a firm engaged by the firm under review (a firm-on-firm review), or an association of CPA firms authorized by the Board to assist its members in forming review teams (an association formed review team) (See Interpretations). For Engagement Reviews, review teams may also be formed by the administering entity if it chooses to appoint such teams (hereinafter, a committee-appointed review team, also known as a CART review).

27. A System Review team is comprised of one or more individuals, depending upon the size and nature of the reviewed firm's practice and other factors. A reviewing firm (or the association) must determine its capability (or the capability of the association formed review team) to perform a peer review. This determination includes assigning reviewers with appropriate levels of expertise and experience to perform the review. Before accepting a peer review engagement, the reviewing firm, or the association for an association formed review team, should obtain information about the firm to be reviewed, including certain operating statistics concerning size and practice.

28. In determining its capability to perform the review, the reviewing firm should consider the size of the firm to be reviewed in relation to its own size. A reviewing firm must recognize that the performance of a peer review may demand substantial commitments of time, especially from its supervisory accounting and auditing personnel. Therefore, a reviewing firm should consider carefully the number and availability of its supervisory personnel in determining whether it can perform a peer review of another firm.

29. One member of the System Review team is designated the team captain. The individual performing an Engagement Review is designated the review captain. The team captain or review captain is responsible for supervising and conducting the review, communicating the review team's findings to the reviewed firm and to the administering entity, and preparing the report on the review. If applicable, the team captain (or review captain, in unusual circumstances) should supervise and review the work performed by other reviewers on the review team to the extent deemed necessary under the circumstances.

30. A System Review team, a review captain on an Engagement Review (and, in unusual circumstances any additional reviewers on an Engagement Review) ordinarily should be approved by the administering entity prior to the commencement of the peer review (See Interpretations).

## **Qualifying for Service as a Peer Reviewer**

### **System and Engagement Reviewers**

31. Performing and reporting on a peer review requires the exercise of professional judgment by peers (See paragraphs 147 through 153 for a discussion of a reviewer's responsibilities when performing a peer review). Accordingly, an individual serving as a reviewer on a System or Engagement Review should at a minimum—



## Guidance for Performing and Reporting on Peer Reviews

- a.* Be a member of the AICPA in good standing (that is, AICPA membership in active, non-suspended status) licensed to practice as a certified public accountant.
- b.* Be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the Program (See Interpretations), as a partner of the firm or as a manager or person with equivalent supervisory responsibilities.<sup>4 5</sup> To be considered currently active in the accounting or auditing function, a reviewer should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements.
- c.* Be associated with a firm (or all firms if associated with more than one firm) that has received a report with a peer review rating of pass<sup>6</sup> for its most recent System or Engagement Review that was accepted timely, ordinarily within the last three years and six months (See Interpretations).<sup>7</sup>
- d.* Possess current knowledge of professional standards applicable to the kind of practice to be reviewed, including quality control and peer review standards. This includes recent experience in and knowledge about current rules and regulations appropriate to the level of service applicable to the industries of the engagements that the individual will be reviewing (See Interpretations).
- e.* Have at least five years of recent experience in the practice of public accounting in the accounting or auditing function.<sup>8</sup>
- f.* Have provided the administering entity with information that accurately reflects the qualifications of the reviewer including recent industry experience, which is updated on a timely basis (See Interpretations).

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<sup>4</sup> The Board recognizes that practitioners often perform a number of functions, including tax and consulting work, and cannot restrict themselves to accounting and auditing work. These standards are not intended to require that reviewers be individuals who spend all their time on accounting and auditing engagements. However, CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a peer review with professional expertise. For instance, in a System Review, a reviewer of auditing engagements should be currently reviewing or performing auditing engagements and in an Engagement Review, a reviewer of engagements performed under the SSAEs should also be currently reviewing or performing the same type of engagements.

<sup>5</sup> A manager or person with equivalent supervisory responsibilities is a professional employee of the firm who has either a continuing responsibility for the overall planning and supervision of engagements for specified clients or authority to determine that an engagement is complete subject to final partner approval if required.

<sup>6</sup> Formerly known as an unmodified report.

<sup>7</sup> If a firm's most recent review was a Report Review, then the firm's members are not eligible to perform peer reviews.

<sup>8</sup> For this purpose, *recent* means having experience within the last five years in the industries and related levels of service for which engagements are reviewed. However, a reviewer should be cautious of those high-risk engagements or industries in which new standards have been issued. For example, in those cases in which new industry standards or practices have occurred in the most recent year, it may be necessary to have *current* practice experience in that industry in order to have *recent* experience.

## Team Captain or Review Captain

32. In addition to adhering to the general requirements in paragraph 31 to be a peer reviewer, a System Review team captain must be a partner<sup>9</sup>. For an Engagement Review, the review captain is not required to be a partner.

33. Also, team captains and review captains should have completed peer review training that meets the requirements established by the Board (See Interpretations). For additional team captain qualification requirements, see the Interpretations.

## Other Peer Reviewer or Reviewing Firm Qualification Considerations

34. Communications from regulatory, monitoring or enforcement bodies relating to allegations or investigations in the conduct of accounting, audit or attestation engagements, including notifications of limitations or restrictions on a reviewer or reviewing firm, may impact the reviewer or reviewing firm's ability to perform the peer review. The reviewer or reviewing firm has a responsibility to inform the administering entity of the communications or restrictions (See Interpretations).

35. If required by the nature of the reviewed firm's practice, individuals with expertise in specialized areas may assist the review team in a consulting capacity. For example, computer specialists, statistical sampling specialists, actuaries, or experts in continuing professional education (CPE) may participate in certain segments of the review.

## Performing System Reviews

### Objectives

36. A System Review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether, during the year under review—

- a. The reviewed firm's system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards established by the AICPA (See SQCS No. 7).
- b. The reviewed firm's quality control policies and procedures were being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards.

37. A System Review is designed to test a reasonable cross-section of the firm's engagements with a focus on high-risk engagements, in addition to significant risk areas where the possibility exists of engagements being performed and/or reported on not in conformity with applicable professional standards in all material respects. A System Review is not designed to test every engagement or compliance with every professional standard and every detailed component of the firm's system of quality control.

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<sup>9</sup> If the peer reviewer's firm's (see Paragraph 31c) most recent peer review was an Engagement Review, then the peer reviewer is not eligible to be a System Review team captain.

## Basic Requirements

38. A System Review should include, but not be limited to, the following procedures:

a. Planning the review, as follows:

1. Obtain the results of the prior peer review (See paragraph 39).
2. Inquire of the firm about the areas to be addressed in the written representations (See paragraph 40).
3. Obtain a sufficient understanding of the nature and extent of the firm's accounting and auditing practice to plan the review (See paragraphs 41 through 45).
4. Obtain a sufficient understanding of the design of the firm's system of quality control, including an understanding of the monitoring procedures performed since the prior review, to plan the review (See paragraphs 41 through 45).
5. Assess peer review risk (See paragraphs 46 through 52).
6. Use the knowledge obtained from the foregoing to select the offices and the engagements to be reviewed, and to determine the nature and extent of the tests to be applied in the functional areas (See paragraphs 53 through 63).

b. Performing the review, as follows:

1. Review the firm's design and compliance with its system of quality control. The review should cover all organizational or functional levels within the firm (See paragraphs 53 and 54).
2. Review significant risk areas on selected engagements, including the relevant accounting, audit and attestation documentation and reporting (See paragraphs 64 and 65).
3. Conclude on the review of engagements (See paragraphs 66 and 67).
4. Reassess the adequacy of the scope of the review based on the results obtained to determine whether additional procedures are necessary (See paragraph 68).
5. Determine the significance of matters (See paragraphs 69 through 72).
6. Prepare the Matter for Further Consideration (MFC) forms, Disposition of MFC (DMFC) forms and any related Finding for Further Consideration (FFC) forms (See paragraphs 73 and 74).
7. Aggregate and systemically evaluate the matters (See paragraphs 75 through 86).
8. Form conclusions on the type of report to issue (See paragraphs 87 through 90).
9. Obtain the written representations from the reviewed firm (See paragraph 5f and Appendix B).
10. Conduct an exit conference with senior members of the reviewed firm to discuss the review team's comments, matters, findings, deficiencies and significant deficiencies identified, recommendations, MFCs and related FFCs, the type of report it will issue and the deficiencies or significant deficiencies to be included in it, and resolve any disagreements (See paragraphs 91 and 92).
11. Prepare a written report on the results of the review (See paragraphs 94 through 97).
12. Review and provide comments to the reviewed firm on its response to the report, if applicable (See paragraphs 98 through 101).

## Planning Considerations

39. To assist the review team in the planning of the review, the team captain should obtain the prior peer review report<sup>10</sup>, the letter of response, if applicable, and the letter of acceptance, all from the reviewed firm. The team captain should also obtain the prior FFC forms (from the administering entity if the team captain's firm did not perform the prior peer review). The team captain should consider whether the issues discussed in those documents require additional emphasis in the current review and, in the course of the review, should evaluate the actions of the firm in response to the prior report.

40. The reviewer should inquire of the firm regarding the areas to be addressed in the written representation (See paragraph 5f and Appendix B) and consider whether the areas discussed require additional emphasis in the course of the review. See Interpretations for other planning considerations.

## Understanding the Firm's Accounting and Auditing Practice and System of Quality Control

41. The review team should obtain a sufficient understanding of the nature and extent of the reviewed firm's accounting and auditing practice to plan the review. This understanding should include knowledge about the reviewed firm's organization and philosophy, as well as the composition of its accounting and auditing practice.

42. The review team should also obtain a sufficient understanding of the reviewed firm's system of quality control with respect to each of the quality control elements in SQCS No. 7 to plan the review. SQCS No. 7 requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm (the "tone at the top"); independence, integrity, objectivity, and other legal and ethical requirements; acceptance and continuance of client relationships and specific engagements; human resources; engagement performance and documentation; and monitoring. It also states that the nature, extent, and formality of a firm's quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm's size, the number of its offices, the degree of operating autonomy allowed its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm's practice, and appropriate cost-benefit considerations.

43. The understanding obtained by the review team should include knowledge about the design of the reviewed firm's quality control policies and procedures in accordance with quality control standards established by the AICPA and how the policies and procedures identify and mitigate risk of material noncompliance with applicable professional standards.

44. The understanding of the firm's accounting and auditing practice and system of quality control is ordinarily obtained through such procedures as inquiries of appropriate management and other personnel and reviewing the firm's responses to questionnaires developed by the Board.

45. The review team should obtain a sufficient understanding of the reviewed firm's monitoring policies and procedures since its last peer review, and their potential effectiveness, to plan the current peer review. In doing so, the review team may determine that the current year's inspection procedures could enable the review team to reduce, in a cost-beneficial manner, the number of offices and engagements selected for review or the extent of the other testing (See Interpretations).

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<sup>10</sup> And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.

## Understanding and Assessing Peer Review Risk Factors

46. Just as the performance of an audit involves audit risk, the performance of a System Review involves peer review risk. Peer review risk is the risk that the review team—

- a. Fails to identify significant weaknesses in the reviewed firm's system of quality control for its accounting and auditing practice, its lack of compliance with that system, or a combination thereof.
- b. Issues an inappropriate opinion on the reviewed firm's system of quality control for its accounting and auditing practice, its compliance with that system, or a combination thereof.
- c. Reaches an inappropriate decision about the matters to be included in, or excluded from, the report.

47. Peer review risk consists of the following two parts:

- a. The risk (consisting of *inherent risk* and *control risk*) that an engagement will fail to be performed and/or reported in conformity with applicable professional standards in all materials respects, that the reviewed firm's system of quality control will not prevent such failure, or both.<sup>11,12</sup>
- b. The risk (detection risk) that the review team will fail to detect and report on the design and/or compliance deficiencies or significant deficiencies in the reviewed firm's system of quality control.

48. Inherent risk and control risk relate to the reviewed firm's accounting and auditing practice and its system of quality control. These risks may be affected by circumstances arising within the firm (for example, individual partners have engagements in numerous specialized industries or the firm has a few engagements constituting a significant portion of the firm's accounting and auditing practice) or outside the firm (for example, new professional standards being applied for the first time or adverse economic developments in an industry).

## Assessing Peer Review Risk

49. In planning the review, the review team should use the understanding it has obtained of the reviewed firm's accounting and auditing practice and its system of quality control to assess the inherent and control risks. The assessment of risks is qualitative and not quantitative. The lower the inherent and control risk, the higher the detection risk that can be tolerated and vice versa. Based on its assessment of inherent and control risk, the review team determines the acceptable level of detection risk.

50. When assessing risk, the review team should evaluate the reviewed firm's quality control policies and procedures over its accounting and auditing practice in relation to the requirements contained in SQCS No. 7. This evaluation provides a basis for the review team to determine whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice.

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<sup>11</sup>*Inherent risk* is the likelihood that an accounting or auditing engagement will fail to conform to professional standards, assuming the firm does not have a system of quality control.

<sup>12</sup>*Control risk* is the risk that a firm's system of quality control will not prevent the performance of an engagement that does not conform to professional standards. It consists of two parts: the firm's control environment and its quality control policies and procedures. The control environment represents the collective effort of various factors on establishing, enhancing, or mitigating the effectiveness of specific quality control policies and procedures. The control environment reflects the overall attitude, awareness, and actions of firm management concerning the importance of quality work and its emphasis in the firm.

## Relationship of Risk to Scope

51. The review team should consider the combined assessed levels of inherent and control risk when selecting offices and engagements to be reviewed. The higher the combined assessed levels of inherent and control risk, the higher the peer review risk. To reduce the peer review risk to an acceptable low level, the detection risk needs to be low, and thus the greater the scope (that is, the greater the number of offices that should be visited, the greater the number of engagements that should be reviewed, or both). Conversely, the lower the combined assessed levels of inherent and control risk, the less the scope that needs to be considered for review. The combined assessed levels of inherent and control risk may vary among offices and engagements so that the scope may be greater for some types of offices and engagements than for others.

52. When the combined assessed levels of inherent and control risk are considered to be low, a relatively small number of engagements may be selected for review. However, even when the combined assessed levels are low, the peer review team must review some engagements to obtain reasonable assurance that the reviewed firm is complying with its quality control policies and procedures and applicable professional standards. For the review team to obtain such assurance, a reasonable cross section of the reviewed firm's accounting and auditing engagements must be reviewed or inspected, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk.

## Planning and Performing Compliance Tests

53. After performing the above planning procedures, the team captain should then develop a general plan for the nature and extent of conducting compliance tests of engagements (to directly test the "engagement performance and documentation" element in SQCS No. 7) and the other elements described in SQCS No. 7 (collectively referred to as the "functional areas"). The compliance tests should be tailored to the practice of the reviewed firm and, taken as a whole, should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed firm's system of quality control was complied with to provide the firm with reasonable (not absolute) assurance of performing and reporting in conformity with applicable professional standards in the conduct of its accounting and auditing practice in all material respects.

54. Such tests should be performed at the practice office(s) visited and should relate to individual engagements and the functional areas. The tests should include the following:

- a.* Review significant risk areas (see paragraph 65) on selected engagements, including accounting and auditing documentation, and reports, to evaluate whether the engagements were performed and reported in conformity with applicable professional standards and compliance with relevant firm quality control policies and procedures.
- b.* Interview firm professional personnel at various levels and, if applicable, other persons responsible for a function or activity, to assess their understanding of, and compliance with, the firm's quality control policies and procedures.
- c.* Review evidential material to determine whether the firm has complied with its policies and procedures for monitoring its system of quality control.
- d.* Review other evidential material as appropriate. Examples include selected administrative or personnel files, correspondence files documenting consultations on technical or ethical questions, files evidencing compliance with human resource requirements, and the firm's library.

## Selection of Offices

55. Visits to practice offices should be sufficient to provide the review team with a reasonable basis for its conclusions regarding whether the reviewed firm's quality control policies and procedures are adequately

communicated throughout the firm and whether its system of quality control was complied with during the year under review based on a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those offices with higher assessed levels of peer review risk. Examples of the factors to consider when assessing peer review risk at the office level include the following:

- a.* The number, size, and geographic distribution of offices
- b.* The degree of centralization of accounting and auditing practice control and supervision
- c.* The review team's evaluation, if applicable, of the firm's monitoring procedures
- d.* Recently merged or recently opened offices
- e.* The significance of industry concentrations and of specialty practice areas, such as governmental compliance audits or regulated industries, to the firm and to individual offices
- f.* Extent of non-audit services to audit clients
- g.* Significant clients' fees to practice office(s) and a partner(s)

56. For a multi office firm, the review should include, at a minimum, a visit to the firm's executive office if one is designated as such.

### **Selection of Engagements**

57. Engagements subject to selection for review ordinarily should be those with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the selection for review ordinarily should be those with report dates during the year under review. If the current year's engagement has not been completed and issued, and a comparable engagement within the peer review year is not available, the prior year's engagement may be reviewed. If the subsequent year's engagement has been completed and issued, the review team should consider, based on its assessment of peer review risk, whether the more recently completed and issued engagement should be reviewed instead. Review team members should not have contact with or access to any client of the reviewed firm in connection with the peer review.

58. Engagements selected for review should provide a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk. Examples of the factors to consider when assessing peer review risk at the engagement level include size, industry area, level of service, personnel (including turnover, use of merged-in personnel, or personnel not routinely assigned to accounting and auditing engagements), communications from regulatory, monitoring, or enforcement bodies, extent of non-audit services to audit clients, significant clients' fees to a practice office(s) and a partner(s), and initial engagements.

59. The review of engagements should usually be directed toward the accounting and auditing work performed by the practice office visited, including the work performed on those engagements by other practice offices of the reviewed firm or other public accounting firms. For those situations in which the practice office being visited performed accounting and auditing work for another practice office, the review team may limit its review to portions of the engagements performed by the practice office being visited, but should evaluate the appropriateness of the instructions issued by the other practice office and the adequacy of the procedures followed in performing and reporting in conformity with applicable professional standards. When combined with other procedures performed, the number and type of accounting and auditing engagements selected by the review team for review should be sufficient to provide the review team with a reasonable basis for its conclusions regarding the reviewed firm's system of quality control.

60. The initial selection of engagements to be reviewed should be provided to the reviewed firm, but no earlier than two weeks prior to the engagement's review. This should provide ample time to enable the

firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. However, at least one engagement from the initial selection to be reviewed should be provided to the firm once the review commences and not provided to the firm in advance. Ordinarily, based on the nature of the firm's practice and assuming that the engagement would not be automatically anticipated for selection by the reviewed firm, the engagement should be an audit. Otherwise, the engagement should be the firm's next highest level of service where the same criteria can be met. This should not increase the scope of the review.

61. The process of engagement selection, except as noted in paragraph 62, like office selection, is not subject to definitive criteria. Nevertheless, if the team captain finds that meeting all of the preceding criteria results in the selection of an inappropriate scope of the firm's accounting and auditing practice, the team captain should consult with the administering entity about the selection of engagements for review (See Interpretations).

62. Specific types and/or number of engagements must be selected in a System Review (See Interpretations).

63. There is a presumption that all engagements otherwise subject to the peer review will be included in the scope of the review. However, in the rare situations when engagement exclusion is being contemplated, a reviewer should carefully consider the implications of such exclusion and communicate the effect on the review with the firm and the administering entity, if applicable (See Interpretations).

### **Extent of the Review of Engagements**

64. The review of engagements should include the review of financial statements, accountants' reports, accounting and audit documentation, and correspondence, as well as discussions with professional personnel of the reviewed firm.

65. Audit engagements have areas where risk may be inherently significant such as, but not limited to, fraud considerations, use of estimates, emerging issues and assertions which are difficult to audit. The review team's procedures should include determining whether the reviewed firm has appropriately:

- a. Identified the significant risk areas on each audit engagement selected for the peer review,
- b. Performed the necessary audit procedures related to the identified significant risk areas, and
- c. Documented the auditing procedures performed in these significant risk areas.

### **Concluding on the Review of an Engagement**

66. For each engagement reviewed, the review team should conclude on its review by documenting whether anything came to its attention that caused it to believe that the engagement was not performed and/or reported in conformity with applicable professional standards in all material respects (See Interpretations).

67. The team captain should promptly inform the firm when an engagement is not performed and/or reported in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions (See Interpretations).

### **Expansion of Scope**

68. If, during the peer review, the review team concludes that there was a significant failure to reach an appropriate conclusion on the application of professional standards on one or more of the reviewed



engagements, the review team should consider whether the application of additional peer review procedures is necessary. This consideration should be documented in the peer review working papers. The objective of the application of additional procedures would be to determine whether the significant failure is indicative of a pattern of such failures, whether it is a significant deficiency in the design of the reviewed firm's system of quality control or in its compliance with the system, or whether it is both. In some circumstances, the reviewer may conclude that, because of compensating controls, or for other reasons, further procedures are unnecessary. If, however, additional procedures are deemed necessary, they may include an expansion of scope to review all or relevant portions of one or more additional engagements, or additional functional areas (or items). Additional engagements may be in the same industry, or supervised by the same individual in the reviewed firm, or otherwise have characteristics associated with the failure to perform and/or report in conformity with professional standards.

### Identifying Matters, Findings, Deficiencies and Significant Deficiencies

69. In understanding the firm's system of quality control, the team captain may note that the system is not designed appropriately. Similarly, the performance of compliance tests may uncover either that the system is not being complied with appropriately, or may identify a design weakness that was not identified during the planning of the peer review. With any of these items, the team captain has available a set of definitions to assist in classifying the condition noted.

70. Determining the significance of matters noted during the peer review, individually or combined with others, requires professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (i.e. MFC, DMFC and FFC forms) to document these items, when applicable, are intended to assist in aggregating and evaluating the peer review results, concluding on them, and determining the nature of the peer review report to issue.

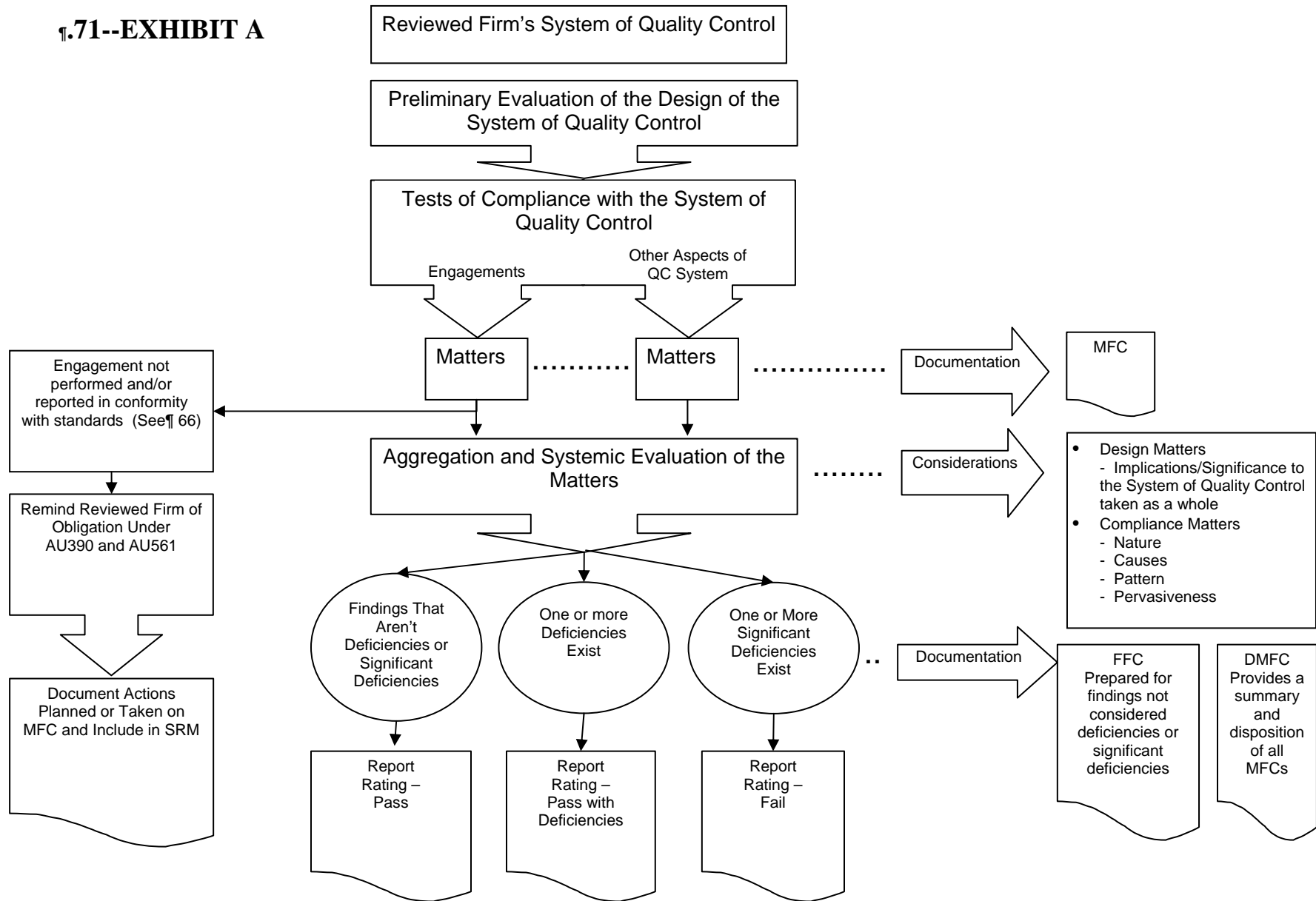
- a. Matter – A peer reviewer notes a matter as a result of his or her evaluation of the design of the reviewed firm's system of quality control and/or tests of compliance with it. Tests of compliance include inspection, inquiry and observation performed by reviewing engagements and testing other aspects of the reviewed firm's system of quality control. A matter is typically a "no" answer to a question in a peer review questionnaire that a reviewer concludes warrants further consideration in the evaluation of a firm's system of quality control.
- b. A finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform and/or report in conformity with applicable professional standards. A peer reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the peer reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of pass is appropriate.
- c. A deficiency is one or more findings that the peer reviewer has concluded is a deficiency because of the nature, causes, pattern or pervasiveness, including the implications and significance of the finding to the reviewed firm's system of quality control taken as a whole. A reviewer concludes that these conditions could create a situation in which the firm would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects and therefore a report rating of pass with deficiencies is appropriate.

## Standards for Performing and Reporting on Peer Reviews

- d. A significant deficiency is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm's system of quality control or compliance with it such that the reviewed firm's system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects and therefore a report rating of fail is appropriate.

71. A broad understanding of the peer review process, from the preliminary evaluation of the design of the system of quality control, to the tests of compliance, to the decision making process of determining whether an item noted during a System Review is a matter, finding, deficiency or significant deficiency, is shown in Exhibit A on the following page. The Exhibit also illustrates the aggregation of these items, where those items are documented in the practice aids and how they might affect the type of report issued.

¶.71--EXHIBIT A



72. As described by Exhibit A in paragraph 71, depending on the resolution of a matter, and the process of aggregating and evaluating peer review results, a matter may develop into a finding. Findings will also be evaluated, and after considering the nature, causes, pattern, pervasiveness and implications/significance to the system of quality control as a whole, may not get elevated to a deficiency. A matter may develop into a finding and get elevated to a deficiency. That deficiency may or may not be further elevated to a significant deficiency.

73. A matter is ordinarily documented on a Matter for Further Consideration (MFC) form. If the matter, after further evaluation, gets elevated to a finding, but not a deficiency or significant deficiency, it is documented on a Finding for Further Consideration (FFC) form. The FFC form is a standalone document that includes the reviewer's recommendation and the reviewed firm's response regarding actions planned or taken and the timing of those actions by the firm. MFC and FFC forms are subject to review and oversight by the administering entity, who will evaluate the reviewed firm's FFC responses for appropriateness and responsiveness and to determine whether any follow up action is necessary. If the matter documented on the MFC form is instead elevated to a deficiency or significant deficiency, then it is further documented in the report itself, along with the reviewer's recommendation, and the firm submits a letter of response regarding actions planned or taken and the timing of those actions by the firm.

74. In order to document the disposition of all the MFCs, the team captain completes a Disposition of MFC (DMFC) form. The DMFC is included in the Summary Review Memorandum as part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting review or oversight. All of the MFCs are identified in the DMFC with an indication after each as to whether it was cleared, waived, an exit conference item or similar disposition, addressed in a specific FFC (individually or combined with other MFCs), or included as a deficiency in a report with a peer review rating of pass with deficiencies or as a significant deficiency in a report with a peer review rating of fail.

### **Aggregating and Systemically Evaluating Matters**

75. To conclude on the results of a peer review, the review team must aggregate the matters noted during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures. The review team should consider their implications or significance to the firm's system of quality control as a whole and their nature, causes, pattern and pervasiveness.

76. Use of professional judgment is essential in determining whether the aggregation of the matters noted during the review are findings and whether one or more findings is a deficiency or significant deficiency for purposes of reporting on the results of the peer review.

### **Design Matters**

77. A design matter exists when the reviewed firm's system of quality control is missing a quality control policy or procedure or the reviewed firm's existing quality control policies and procedures, even if fully complied with, would not result in engagements performed and/or reported in accordance with professional standards in some respect. To be effective, a system of quality control must be designed properly, and all of the quality control policies and procedures necessary to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects should be in place. Therefore, the review team will need to determine whether the quality control policies and procedures would be effective if they were complied with. To

make this determination, the review team should consider the implications of the evidence obtained during its evaluation of the system of quality control and its tests of compliance, including its reviews of engagements. For example, a pattern of engagement failures to perform and/or report in conformity with applicable professional standards in all material respects – i.e., significant failures requiring the application of SAS No. 1 (AICPA, Professional Standards, vol. 1, AU sec 561) and/or SAS No. 46 (AICPA Professional Standards, vol. 1, AU sec 390) – likely are indicative of a finding pertaining to the design of the reviewed firm’s quality control policies and procedures.

78. As noted in SQCS No. 7, “The nature of the policies and procedures developed by individual firms to comply with this Statement will depend on various factors such as the size and operating characteristics of the firm”. Likewise, the implications and significance of design matters noted in the reviewed firm’s quality control policies and procedures, individually and in the aggregate, need to be evaluated in the context of the firm’s size, organizational structure and the nature of its practice. For example, a matter noted during the review of a quality control policy or procedures may be particularly or wholly offset by another policy or procedure. In this circumstance, the review team should consider the interrelationships among the elements of quality and weigh the matters noted against compensating policies and procedures to determine whether a finding exists, and its significance.

79. There may be circumstances in which the reviewer finds few findings in the work performed by the firm and yet may conclude that the design of the firm’s system of quality control needs to be improved. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to the policies and procedures necessary in areas such as human resources (hiring, assigning personnel to engagements, and advancement) and acceptance and continuance of clients and engagements. A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. However, in the absence of findings in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be addressed in a FFC as a finding rather than result in a report with a peer review rating of pass with deficiencies or fail.

### **Compliance Matters**

80. A compliance matter exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the reviewed firm to comply with it. Since a variance in individual performance and professional interpretation will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the reviewed firm with its prescribed quality control policies and procedures should be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

81. In assessing whether the degree of compliance was adequate to provide the required assurance, the review team should consider the nature, causes, pattern and pervasiveness of the instances of noncompliance noted and their implications for the firm’s system of quality control as a whole, not merely their importance in the specific circumstances in which they were observed. As with the evaluation of design matters, compliance matters also need to be evaluated in the context of the firm’s size, organizational structure and the nature of its practice.

82. To determine the degree of noncompliance, the review team should evaluate the matters of noncompliance, both individually and in the aggregate, recognizing that adherence to certain policies and procedures of the reviewed firm is more critical to the firm obtaining reasonable assurance of performing and reporting in conformity with applicable professional standards than adherence to others. In this

context the review team should consider the likelihood that noncompliance with a given quality control policy or procedure could have resulted in engagements not being performed in conformity with applicable professional standards in all material respects. The more direct the relationship between a specific quality control policy or procedure and the application of professional standards, the lower the degree of noncompliance necessary to determine whether a matter (or matters) is a finding and whether a finding is a deficiency or significant deficiency.

### **Determining the Cause for a Finding**

83. When the review team is faced with an indication that the firm failed to perform and/or report in conformity with applicable professional standards in all material respects, the review team's first task in such circumstances is to determine the cause of the failure. Causes that might be systemic and might affect the type of peer review report issued include, but are not limited to, the following:

- a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
- b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.
- c. The failure should have been detected if the firm's quality control policies and procedures had been followed.
- d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the administering entity before reaching such a conclusion.

84. The failure to perform and/or report in conformity with applicable professional standards in all material respects may be the result of an isolated human error and, therefore, would not necessarily mean that a peer review report with a peer review rating of pass with deficiencies or fail should be issued. However, if the reviewer believes that the probable cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a significant failure to perform and/or report in conformity with applicable professional standards on an engagement or a finding within a functional area also exists in other engagements or in other functional areas, the reviewer needs to consider carefully the need to issue a peer review report with a peer review rating of pass with deficiencies or fail.

85. Although an isolated matter or an instance of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in the report, its nature, cause (if determinable), and implications or significance for the firm's system of quality control as a whole should be evaluated in conjunction with the review team's other findings before making a final determination.

### **The Pattern and Pervasiveness of Matters**

86. The review team must consider the pattern and pervasiveness of matters and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature, causes and implications or significance in the specific circumstances in which they were observed. As noted in the preceding paragraphs, the review team's first task is to try to determine why the matters occurred. In some cases, the design of the firm's system of quality control may be deficient as, for example, when it

does not provide for timely involvement in the planning process by a partner of the firm or there is inadequate supervision of engagement planning. In other cases, there may be a pattern of noncompliance with a quality control policy or procedure as, for example, when firm policy requires the completion of a financial statement disclosure checklist but such checklists often were not used or relevant questions or points were incorrectly considered. That increases the possibility that the firm might not perform and/or report in conformity with applicable professional standards in all material respects, which also means that the reviewer must consider carefully whether the matter is a deficiency or a significant deficiency and whether there is the need to issue a peer review report with a peer review rating of pass with deficiencies or fail. On the other hand, the types of matters noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the matters were isolated cases of human error that should not result in a peer review report with a peer review rating of pass with deficiencies or fail.

### **Forming Conclusions on the Type of Report to Issue in a System Review**

87. The team captain must use professional judgment in determining the type of peer review report to issue. This judgment requires the consideration of several factors, including an understanding of the firm's system of quality control and the nature, causes, pattern and pervasiveness and their implications or significance to the firm's system of quality control taken as a whole.

#### **System Review Report with a Peer Review Rating of Pass**

88. A report with a peer review rating of pass should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and therefore the report does not contain any deficiencies, significant deficiencies or recommendations.

#### **System Review Report with a Peer Review Rating of Pass with Deficiencies**

89. A report with a peer review rating of pass with deficiencies should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report. These deficiencies are conditions related to the firm's design of and compliance with its system of quality control that could create a situation in which the firm would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects due to the nature, causes, pattern or pervasiveness, including the implications and significance of the findings to the quality control system taken as a whole.

#### **System Review Report with a Peer Review Rating of Fail**

90. A report with a peer review rating of fail should be issued when the team captain has identified significant deficiencies and concludes that the firm's system of quality control is not suitably designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the firm has not complied with its system of quality

control to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

## **Communicating Conclusions at the Exit Conference**

91. A firm that has a System Review should respond promptly to questions raised in the review in order to assist the review team in reaching its conclusions. Prior to issuing its report or finalizing FFC(s), if applicable, the review team should communicate its conclusions to senior members of the reviewed firm at an exit conference. Ordinarily, the team captain should be physically present at the exit conference, unless the System Review is performed at a location other than the practitioner's office. The exit conference may also be attended by representatives of the administering entity, the Board, AICPA staff, or other Board authorized organizations with oversight responsibilities.

92. The reviewed firm is entitled to be informed at the exit conference about any matters documented in the MFCs, findings documented in the FFCs, deficiencies or significant deficiencies to be included in the peer review report and the type of report to be issued. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The review team should also communicate, if applicable, that the firm may be required to take certain corrective actions to 1) correct the deficiencies or significant deficiencies noted in the report and/or 2) respond to findings noted in the FFC(s). The exit conference is also the appropriate vehicle for providing suggestions to the firm that are not included in the report, FFC(s) or MFCs.

## **Addressing Disagreements Between the Reviewer and the Reviewed Firm**

93. Disagreements may arise on the resolution of various issues, for instance, related to the review of particular engagements, the systemic cause for a deficiency or issues related to a design deficiency. In addition, there could be a disagreement on the appropriate approach to be taken in performing and/or reporting in conformity with applicable professional standards, or the review team does not believe that the actions planned or taken by the firm, if any, are appropriate (for example, if the reviewed firm believes that it can continue to support a previously issued report and the review team continues to believe that there may be a significant failure to reach appropriate conclusions in the application of professional standards). Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and each party has the right to challenge each other on an issue. Nevertheless, a disagreement on the resolution of an issue may persist in some circumstances. The reviewed firm or reviewer should be aware that they may consult with their administering entity and, if necessary, request that the administering entity's peer review committee resolve the disagreement. If the administering entity's full peer review committee is unable to resolve the disagreement, they may refer unresolved issues to the Board for a final determination. Only the administering entity's peer review committee will be responsible for determining whether a disagreement still exists, or whether the reviewed firm or review team is not cooperating, in order to refer the issue to the Board.



## Reporting on System Reviews

### General

94. The team captain should furnish the reviewed firm with a written report and the final FFC(s) forms within thirty days of the exit conference date or by the firm's peer review due date, whichever is earlier. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the firm of the team captain performing the review. The report in a System Review ordinarily should be dated as of the date of the exit conference. See Interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity.

95. The reviewed firm should submit a copy of the report, and its response, if applicable, to all deficiencies or significant deficiencies discussed in the report to the administering entity within thirty days of the date it received the report or by the firm's peer review due date, whichever date is earlier. Prior to submitting the response, if applicable, to the administering entity, the reviewed firm should submit the response to the team captain for review and comment.

### Preparing the Report in a System Review

96. The standard form for a report with a peer review rating of pass is illustrated in Appendix C, "Illustration of a Report with a Peer Review Rating of Pass in a System Review." Illustrations of reports with a peer review rating of pass with deficiencies and fail are presented in Appendices D, F and H, "Illustration of a Report with a Peer Review Rating of Pass with Deficiencies in a System Review", "Illustration of a Report with a Peer Review Rating of Pass with Deficiency for a Scope Limitation in a System Review" and "Illustration of a Report with a Peer Review Rating of Fail in a System Review," respectively.

97. The written report in a System Review should:
- a. State at the top of the report the title of "System Review Report".
  - b. State that the system of quality control for the accounting and auditing practice of the firm was reviewed and include the year-end covered by the peer review.
  - c. State that the peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* established by the Peer Review Board of the American Institute of Certified Public Accountants.
  - d. State that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
  - e. State that the reviewer's responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on the review.
  - f. State that the nature, objectives, scope, limitations of and procedures performed in a System Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009.
  - g. Include a URL reference to the AICPA website where the *Standards* are located.
  - h. Identify, when applicable, engagement types required to be selected by the Board in the Interpretations.
  - i. Identify the different peer review ratings that the firm could receive.
  - j. In a report with a peer review rating of pass:

- Express an opinion that the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects and
  - State at the end of the opinion paragraph that therefore the firm has received a peer review rating of pass.
- k. In a report with a peer review rating of pass with deficiencies<sup>13</sup>:
- Express an opinion that, except for the deficiencies described above, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects and
  - State at the end of the opinion paragraph that therefore the firm has received a peer review rating of pass with deficiencies.
- l. In a report with a peer review rating of fail:
- Express an opinion that as a result of the significant deficiencies described above, that the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended was not suitably designed or complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects and
  - State at the end of the opinion paragraph that therefore the firm has received a peer review rating of fail.
- m. Include, for reports with a peer review rating of pass with deficiencies or fail, systemically written descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations. Each of these should be numbered. Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies or recommendations.
- n. Identify, for any deficiencies or significant deficiencies included in the report with a peer review rating of pass with deficiencies or fail, any that were also made in the report<sup>14</sup> issued on the firm's previous peer review. This should be determined based on the underlying systemic cause of the deficiencies or significant deficiencies.
- o. Identify, if applicable, for any deficiencies or significant deficiencies which are determined to be industry specific included in the report with a peer review rating of pass with deficiencies or fail, the industry and level of service of the applicable engagements.
- p. In a report with a peer review rating of pass with deficiencies or fail, identify for scope limitations the industry and level of service for engagement(s) excluded from potential selection in the peer review.

## Firm Responses in a System Review

98. The reviewed firm should respond in writing to deficiencies or significant deficiencies and related recommendations identified in the report, if any. The letter of response should be addressed to the administering entity's peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report.

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<sup>13</sup> Reference to plural could also apply to a singular item within the *Standards*. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

<sup>14</sup> And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.

99. The reviewed firm should also respond on the FFC forms, if any are developed, to findings and related recommendations. These responses should describe the actions planned (including timing) or taken by the reviewed firm with respect to each finding.

100. If, after a discussion with the team captain, the reviewed firm disagrees with one or more of the findings, deficiencies or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter (see paragraph 93). If the reviewed firm still disagrees with one or more of the findings, deficiencies or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement. Although not required to respond to a scope limitation as described in the report, the firm may identify the reasons for the scope limitation. The reviewed firm should submit these responses to the team captain for review, evaluation and comment. Letters of response should then be submitted by the reviewed firm to the administering entity; responses on FFC forms are submitted by the team captain to the administering entity.

101. Illustrations of letters of response by a reviewed firm to reports in a System Review with a peer review rating of pass with deficiencies and fail are included in Appendices E, G and I, “Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Pass with Deficiencies in a System Review”, “Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Pass with Deficiency for a Scope Limitation in a System Review”, and “Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Fail in a System Review”, respectively.

## Performing Engagement Reviews

### Objectives

102. The objective of an Engagement Review is to evaluate whether engagements submitted for review are performed and reported in conformity with applicable professional standards in all material respects. An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant’s report thereon, together with certain background information and representations and, except for compilation engagements performed under SSARS, the applicable documentation required by professional standards.

103. Engagement Reviews are available only to firms that do not perform engagements under the SASs or *Government Auditing Standards*, examinations of prospective financial statements under the SSAEs or audits of non-SEC issuers performed pursuant to the standards of the PCAOB. However, firms eligible to have an Engagement Review may elect to have a System Review.

### Basic Requirements

104. The criteria for selecting the peer review year-end and the period to be covered by an Engagement Review are the same as those for a System Review (see paragraphs 13 through 19). Engagements subject to review ordinarily should be those with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the selection for review ordinarily should be those engagements with report dates during the year under review. The reviewed firm should provide summarized information showing the number of its compilation and review engagements performed under SSARS and engagements performed under the SSAEs, classified into industry categories. That information should be provided for each partner, or individual if not a partner, of the firm who is

responsible for the issuance of reports on such engagements. On the basis of that information, the review captain or the administering entity ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines:

- a. One engagement should be selected from each of the following areas of service performed by the firm:
  1. Review of historical financial statements (performed under SSARS)
  2. Compilation of historical financial statements, with disclosures (performed under SSARS)
  3. Compilation of historical financial statements that omits substantially all disclosures (performed under SSARS)
  4. Engagements performed under the SSAEs other than examinations of prospective financial statements.
- b. One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports listed in item “a” above.
- c. Ordinarily, at least two engagements should be selected for review.

105. The preceding criteria are not mutually exclusive. The objective is to ensure that one engagement is selected for each partner and one engagement is selected from each of the areas of service performed by the firm listed in item “a.” above. Therefore, one of every type of engagement that a partner, or individual if not a partner, responsible for the issuance of the reports listed in item “a” above performs does not have to be reviewed as long as, for the firm taken as a whole, all types of engagements noted in item “a” above performed by the firm are covered.

106. The review captain should obtain the required representations submitted by the firm (see paragraph 5f) and should obtain the firm’s prior peer review report<sup>15</sup>, the letter response, if applicable and the letter accepting those documents, all from the reviewed firm. The review captain should also obtain the prior FFC forms (from the administering entity if the review captain’s firm did not perform the prior review).

107. For each engagement selected for review, the reviewed firm should submit the appropriate financial statements or information and the accountant’s report, masking client identity if it desires, along with specified background information, representations about each engagement and, except for compilation engagements performed under SSARS, the firm’s documentation required by applicable professional standards for each of these engagements.

108. The evaluation of each engagement submitted for review includes:

- a. Consideration of the financial statements or information and the related accountant’s report on the compilation and review engagements performed under SSARS and engagements performed under SSAEs
- b. Consideration of the documentation on the engagements performed via reviewing background and engagement profile information, representations made by the firm and inquiries.
- c. For engagements other than compilation engagements performed under SSARS, review of all other documentation required by applicable professional standards on the engagements.

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<sup>15</sup> And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.

- d. The review captain may request to review all other documentation on compilation engagements performed under SSARS if the firm has represented that the documentation is appropriate but the review captain has cause to believe that the documentation may not have been prepared in accordance with applicable professional standards, or to support presentation or measurement issues relating to the financial statements or information, if necessary.

109. An Engagement Review does not include a review of other documentation prepared on the engagements submitted for review (other than the documentation referred to in paragraphs 107 and 108), tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a System Review. Accordingly, an Engagement Review does not provide the review captain with a basis for expressing any form of assurance on the firm's system of quality control for its accounting practice. The review captain's report does indicate, however, whether anything came to the review captain's attention that caused him or her to believe that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects (See Interpretations). The review captain should promptly inform the firm when an engagement is not performed and/or reported in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions (See Interpretations).

## Identifying Matters, Findings, Deficiencies and Significant Deficiencies

110. Determining the significance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (i.e. MFC, DMFC and FFC forms) described below to document these items, are intended to assist in determining the nature of the peer review report to issue.

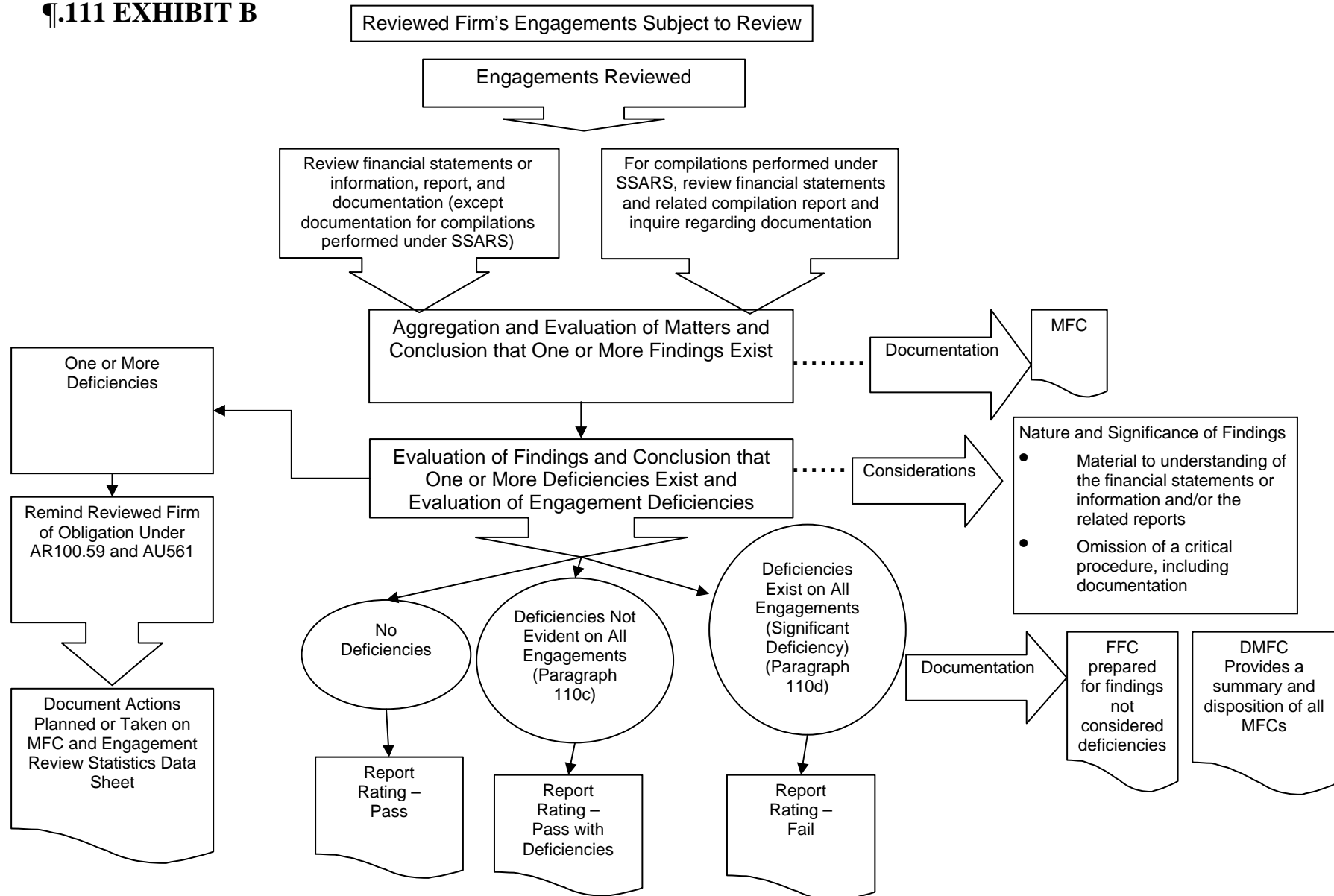
- a. A *matter* is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported in conformity with applicable professional standards. The evaluation includes reviewing the financial statements or information, the related accountant's reports and the adequacy of procedures performed, including related documentation. A matter is typically a "no" answer in a peer review questionnaire.
- b. A *finding* is one or more matters that the review captain has concluded results in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency. If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of pass is appropriate.
- c. A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information and/or related accountant's reports or represents omission of a critical procedure, including documentation, required by applicable professional standards. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, or when the exact same deficiency occurs on each of the engagements submitted for review and there are no other deficiencies, a report with a peer review rating of pass with deficiencies would ordinarily be issued.

## Standards for Performing and Reporting on Peer Reviews

- d. A significant deficiency exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review (with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements, and there are no other deficiencies, which ordinarily would result in a report with a peer review rating of pass with deficiency). When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed and/or reported in conformity with applicable professional standards in all material respects, and a report with a peer review rating of fail is appropriate.

111. A broad understanding of the peer review process, from the review of submitted engagements to the decision making process of determining whether an item noted during an Engagement Review is a matter, finding, deficiency or significant deficiency is shown in Exhibit B on the following page. The Exhibit also illustrates the aggregation of these items, where those items are documented in the practice aids and how they might affect the type of report issued.

¶.111 EXHIBIT B



112. As described by Exhibit B in paragraph 111, depending on the resolution of a matter, and the process of aggregating and evaluating peer review results, a matter may develop into a finding. Findings will also be evaluated, and after considering their nature and significance, including whether they are material to the understanding of the report or financial statements and/or represent the omission of a critical procedure, including documentation, may not get elevated to a deficiency. Alternatively, a matter may develop into a finding and get elevated to a deficiency. That deficiency may or may not be further elevated to a significant deficiency.

113. A matter is ordinarily documented on a Matter for Further Consideration (MFC) form. If the matter, after further evaluation, gets elevated to a finding, but not a deficiency or significant deficiency, it is documented on a Finding for Further Consideration (FFC) form. The FFC form is a standalone document that includes the reviewer's recommendation and the reviewed firm's response regarding actions planned or taken and the timing of those actions by the firm. MFC and FFC forms are subject to review and oversight by the administering entity, who will evaluate the reviewed firm's FFC responses for appropriateness and responsiveness and to determine whether any follow up action is necessary. If the matter documented on the MFC form is instead elevated to a deficiency or significant deficiency, then it is further documented in the report itself, along with the reviewer's recommendation, and the firm submits a letter of response regarding actions planned or taken and the timing of those actions by the firm.

114. In order to document the disposition of all the MFCs, the review captain completes a Disposition of MFC (DMFC) form. The DMFC is included in the review captain's checklist as part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting review or oversight. All of the MFCs are identified in the DMFC with an indication after each as to whether it was cleared, waived, discussed with the firm or similar disposition, addressed in a specific FFC (individually or combined with other MFCs), or included as a deficiency in a report with a peer review rating of pass with deficiencies or as a significant deficiency in a report with a peer review rating of fail.

115. A firm that has an Engagement Review should respond promptly to questions raised in the review, whether those questions are raised orally or in writing. The review captain will contact the firm, before issuing the final peer review report, to resolve questions raised during the peer review and to complete the MFC, DMFC and FFC forms as applicable. In addition to discussing deficiencies or significant deficiencies and recommendations to be included in a report with a peer review rating of pass with deficiencies or fail, ordinarily, these should be discussed, along with the content of the letter of response, and agreed upon with the firm prior to the issuance of the final written report. The review captain should also communicate, if applicable, that the firm may be required to take certain corrective actions to 1) correct the deficiencies or significant deficiencies noted in the report and/or 2) respond to findings noted in the FFC(s). This is also the appropriate opportunity for providing suggestions to the firm that are not included in the report, FFC(s) or MFCs.

## **Addressing Disagreements Between the Reviewer and the Reviewed Firm**

116. Disagreements may arise on the resolution of various issues, for instance, there could be a disagreement on the appropriate approach to performing and/or reporting in conformity with applicable professional standards, or the review team does not believe that the actions planned or taken by the firm, if any, are appropriate (for example, if the reviewed firm believes that it can continue to support a previously issued report and the review team continues to believe that there may be a significant failure to reach appropriate conclusions in the application of professional standards). Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and each party has the right to challenge each other on an issue. Nevertheless, a disagreement on the resolution of an



issue may persist in some circumstances. The reviewed firm or reviewer should be aware that they may consult with their administering entity and, if necessary, request that the administering entity's peer review committee resolve the disagreement. If the administering entity's full peer review committee is unable to resolve the disagreement, they may refer unresolved issues to the Board for a final determination. Only the administering entity's peer review committee will be responsible for determining whether a disagreement still exists, or whether the reviewed firm or review team is not cooperating, in order to refer the issue to the Board.

## **Reporting on Engagement Reviews**

### **Forming Conclusions on the Type of Report to Issue in an Engagement Review**

#### **Engagement Review Report with a Peer Review Rating of Pass**

117. A report with a peer review rating of pass is issued when the reviewer concludes that nothing came to his or her attention that caused him/her to believe that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and therefore the report does not contain any deficiencies, significant deficiencies or recommendations.

#### **Engagement Review Report with a Peer Review Rating of Pass with Deficiencies**

118. A report with a peer review rating of pass with deficiencies is issued when the review captain concludes that nothing came to his or her attention that caused him/her to believe that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report. The deficiencies are one or more findings that the peer reviewer concludes are material to the understanding of the report or financial statements or represents omission of a critical procedure, including documentation, required by applicable professional standards. A report with a peer review rating of pass with deficiencies is issued when at least one but not all of the engagements submitted for review contain a deficiency. However, when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of pass with deficiency should be issued rather than with a peer review rating of fail.

#### **Engagement Review Report with a Peer Review Rating of Fail**

119. A report with a peer review rating of fail is issued when the review captain concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported in conformity with applicable professional standards in all material respects. A report with a peer review rating of fail is issued when deficiencies are evident on all of the engagements submitted for review. However, a report with a peer review rating of pass with deficiency should be issued when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies. The review captain should not expand scope beyond the original selection of engagements in an effort to change the conclusion from a peer review rating of fail in these circumstances.

## General

120. In an Engagement Review, the review captain should furnish the reviewed firm with a written report and the final FFC forms within thirty days of the review of engagements or by the firm's peer review due date, whichever is earlier. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the firm of the review captain performing the review. Other reports are issued on the letterhead of the administering entity. The report in an Engagement Review ordinarily should be dated as of the date of the completion of the peer review procedures. See Interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity.

121. In an Engagement Review, the reviewed firm should submit a copy of the report, and its response, if applicable to all deficiencies or significant deficiencies discussed in the report to the administering entity within thirty days of the date it received the report from the review captain or by the firm's peer review due date, whichever date is earlier. Prior to submitting the response, if applicable, to the administering entity, the reviewed firm should submit the response to the review captain for review and comment.

## Illustrations of Reports in an Engagement Review

122. The standard form for a report with a peer review rating of pass is illustrated in Appendix J, "Illustration of a Report with a Peer Review Rating of Pass in an Engagement Review." Illustrations of reports with a peer review rating of pass with deficiencies and fail are presented in Appendices K and M, "Illustration of a Report with a Peer Review Rating of Pass with Deficiencies in an Engagement Review", and "Illustration of an Report with a Peer Review Rating of Fail in an Engagement Review", respectively.

123. The written report in an Engagement Review should:

- a. State at the top of the report the title of "Engagement Review Report".
- b. State that the peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* established by the Peer Review Board of the American Institute of Certified Public Accountants.
- c. State that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects (even though this is an Engagement Review, the statement reflects the responsibility of the firm).
- d. State that the reviewer's responsibility is to evaluate whether the engagements submitted for review were performed and reported in conformity with applicable professional standards in all material respects.
- e. State that the nature, objectives, scope, limitations of and procedures performed in an Engagement Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009.
- f. Include a URL to the AICPA website where the *Standards* are located.
- g. Identify the different peer review ratings that the firm could receive.
- h. In a report with a peer review rating of pass, state:
  - that nothing came to the review captain's attention that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects
  - at the end of the second paragraph that therefore the firm has received a peer review rating of pass

- i. In a report with a peer review rating of pass with deficiencies<sup>16</sup>, state:
  - that nothing came to the review captain's attention that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respect except for the deficiencies described above
  - at the end of the last paragraph, that therefore the firm has received a peer review rating of pass with deficiencies
- j. In a report with a peer review rating of fail, state:
  - that as a result of the deficiencies described above, the review captain believes that the engagements submitted for review were not performed and/or reported in conformity with applicable professional standards in all material respects
  - at the end of the last paragraph, that therefore the firm has received a peer review rating of fail
- k. Include, for reports with a peer review rating of pass with deficiencies or fail, descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations. Each of these should be numbered. Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies or recommendations.
- l. Identify, for any deficiencies or significant deficiencies included in the report with a peer review rating of pass with deficiencies or fail, any that were also made in the report<sup>17</sup> in the firm's previous peer review. However, if the specific types of reporting, presentation, disclosure, or documentation deficiencies or significant deficiencies are not substantially the same on the current review as on the prior review, the deficiencies or significant deficiencies would not be considered a repeat.
- m. Identify, if applicable, for any deficiencies or significant deficiencies which are determined to be industry specific included in the report with a peer review rating of pass with deficiencies or fail, the industry and the level of service of the applicable engagements.
- n. In a report with a peer review rating of pass with deficiencies or fail, identify for scope limitations, the industry and level of service for engagement(s) excluded from potential selection in the peer review.

## Firm Responses in an Engagement Review

124. The reviewed firm should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the administering entity's peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report.

125. The reviewed firm should also respond on the FFC forms, if any are developed, to findings and related recommendations. These responses should describe the actions planned (including timing) or taken by the reviewed firm with respect to each finding.

126. If, after a discussion with the review captain, the reviewed firm disagrees with one or more of the findings, deficiencies or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter (see paragraph 116). If the reviewed firm still disagrees with one or more of the findings, deficiencies or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement. Although not required to respond to a scope limitation as described in the report, the firm may identify the reasons for the scope limitation. The reviewed firm should submit these responses to the review captain for review, evaluation and comment. Letters of response should then be submitted by the reviewed firm to the administering entity; responses on FFC forms are submitted by the review captain to the administering entity.

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<sup>16</sup> Reference to plural could also apply to a singular item within the *Standards*. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

<sup>17</sup> And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.

127. Illustrations of letters of responses by a reviewed firm to reports with a peer review rating of pass with deficiencies and fail are included in Appendices L and N “Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Pass with Deficiencies in an Engagement Review” and “Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Fail in an Engagement Review”, respectively.

## Administering Peer Reviews

128. All peer reviews intended to meet the requirements of the Program should be carried out in conformity with these *Standards* under the supervision of a state CPA society, group of state CPA societies, the AICPA Peer Review Board’s National Peer Review Committee (National PRC) (See Interpretations) or other entity (hereinafter, administering entity) approved by the Board to administer peer reviews. This imposes an obligation on reviewed firms to facilitate completion of their peer reviews in compliance with the procedures established by the Board, and to cooperate with the administering entity and with the Board in all matters related to the review.

129. Entities requesting to administer the Program are required to complete and sign a Plan of Administration (Plan) annually whereby the entity agrees to administer the Program in compliance with these *Standards*, Interpretations and other guidance established by the Board. Upon receipt of the Plans by the AICPA, including jurisdictions not requesting to administer the Program for their state, the Board annually approves the administering entities for all of the jurisdictions covered by the Program.

130. This imposes an obligation on the administering entities to ensure that their staff, technical reviewers, committee members, and all others involved in the administration of the Program and performance of peer reviews comply with these *Standards*, Interpretations and other guidance established by the Board. Administering entities shall also cooperate with the Board in all matters related to the administration of the Program. Failure to comply with these *Standards*, Interpretations and other guidance may result in the revocation of the administering entity’s Plan by the Board. If an administering entity refuses to cooperate, or is found to be deficient in administering the Program in compliance with these *Standards* or with other guidance, the Board may decide pursuant to due process procedures whether the administering entity’s Plan should be revoked or whether some other action should be taken.

131. Due to the volume of peer reviews, firms, reviewers and other contributing factors, the Board recognizes that administering entities, and in some situations, firms and peer reviewers, may need the flexibility, in specific circumstances, to implement alternate methods of complying with the *Standards*, Interpretations or guidance issued by the Board. The Board and/or its staff will consider reasonable requests from administering entities’ peer review committees on such matters. The comprehensiveness of the administering entity’s oversight policies and procedures will be considered as well as such factors as whether the objectives of the *Standards*, Interpretations or guidance would still be met. Administering entities must submit a request in writing to the Board for approval prior to implementing alternative methods of complying with the *Standards*, Interpretations or other guidance. This request should be submitted in conjunction with the submission of its Plan.

## Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities

132. An administering entity appoints a peer review committee (committee) to oversee the administration, acceptance and completion of peer reviews. The committee may decide to delegate a portion of the report acceptance function to report acceptance bodies (RABs), whose members are not

## Guidance for Performing and Reporting on Peer Reviews

required, but may be, members of the committee as well. Members of a committee or a RAB must meet minimum qualification requirements (See Interpretations). It is ultimately the committee's responsibility to ensure that it (or a RAB on its behalf) considers the results of peer reviews it administers that are undertaken to meet the requirements of the Program. The activities of the committee should be carried out in accordance with administrative procedures and guidance issued by the Board. Committee members may not participate in any discussion or have any vote with respect to a reviewed firm if the member lacks independence or has a conflict of interest with the reviewing firm, the reviewer, or the reviewed firm.

133. The committee's report acceptance responsibilities include:

- a. Ensuring that peer reviews are presented to a report acceptance body in a timely manner, ordinarily within 120 days of receipt of the report, and letter of response, if applicable, from the reviewed firm.
- b. Considering whether the review has been performed in accordance with these *Standards*, Interpretations and related guidance materials.
- c. Considering whether the report, and the response thereto, if applicable, are in accordance with these *Standards*, Interpretations and related guidance materials, including an evaluation of the adequacy of the corrective actions the reviewed firm has represented that it has taken or will take in its letter of response.
- d. Determining whether it should require any remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the reviewed firm in its letter of response. Examples of such corrective actions include, but are not limited to, requiring certain individuals to obtain specified kinds and specified amounts of continuing professional education, requiring the firm to carry out more comprehensive monitoring procedures, or requiring it to engage another CPA to perform preissuance or postissuance reviews of financial statements, reports, and accounting and audit documentation to attempt to strengthen the performance of the firm's professional staff.
- e. In relation to FFCs:
  1. Considering whether FFC (and associated MFC and DMFC) forms are prepared in accordance with these *Standards*, Interpretations and related guidance materials, including whether the findings addressed in the FFCs should have been included in a report with a peer review rating of pass with deficiencies or fail.
  2. Determining the adequacy of the corrective actions the reviewed firm has represented that it has taken or will take in its response in the FFC form(s).
  3. Determining whether it should require any remedial, corrective actions in addition to those described by the reviewed firm in its response in the FFC form(s).
- f. Ensuring that all corrective actions, whether related to deficiencies or significant deficiencies in the peer review report or findings on a FFC form, have been completed to the satisfaction of the committee.
- g. Ensuring that all firms within its jurisdiction have timely peer reviews and keeping track of the timing of the completion of corrective actions by all firms that the committee has required to take corrective actions, including those that are overdue.

134. In reaching its conclusions on the preceding items, the committee is authorized to make whatever inquiries or initiate whatever actions it considers necessary in the circumstances, including requesting revisions to the report, or the reviewed firm's response thereto. Such inquiries or actions by the committee should be made with the understanding that the Program is intended to be positive and remedial in nature, and is based on mutual trust and cooperation.

135. In the rare event of a disagreement, between the administering entity and either the reviewer or the reviewed firm that cannot be resolved by ordinary good-faith efforts, the administering entity may request that the matter be referred to the Board for final resolution. Only the approved administering entity's peer review committee will be responsible for determining whether a disagreement still exists in order to refer the matter to the Board. In these circumstances, the Board may consult with representatives of other AICPA committees or with appropriate AICPA staff.

## Accepting System and Engagement Reviews

136. Technical reviews are required to be performed by the administering entity on all peer reviews. Technical reviewers must meet minimum qualification requirements (See Interpretations).

137. All System Reviews are required to be presented for committee consideration, but committee consideration is not always required in an Engagement Review. The technical reviewer<sup>18</sup> should be delegated the authority from the committee to accept Engagement Reviews on the committee's behalf when the technical reviewer determines that there are no MFCs prepared and that there were no other issues associated with the review warranting committee consideration and action, such as the imposition of corrective actions on the reviewed firm or the issuance of committee feedback to members of the review team.

138. Engagement Reviews that do not require committee consideration under the specific criteria indicated above are required to be accepted by the technical reviewer within 45 days of receipt of the report from the reviewed firm. If the committee does not delegate the authority to the technical reviewer to accept Engagement Reviews under the specific criteria indicated above, the review is required to be presented to the committee within 45 days of receipt of the report from the reviewed firm.

139. In deciding on the need for and nature of any corrective actions, the committee should consider the nature, significance, and for System Reviews, the causes, pattern, pervasiveness and implications/significance to the system of quality control as a whole, of the deficiencies or significant deficiencies. It should evaluate whether the recommendations of the review team appear to address those deficiencies or significant deficiencies adequately and whether the reviewed firm's responses to those recommendations appear comprehensive, genuine, and feasible.

140. If the peer review committee determines that corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the firm in its letter of response, are appropriate, the firm will be required to evidence its agreement to perform these corrective action(s) in writing before the report is accepted and complete the action(s) as a condition of cooperation with the administering entity and the Board.

## Cooperating with the Administering Entity and the Board

141. Paragraph 5h of the Standards noted that firms (and individuals) enrolled in the Program have the responsibility to cooperate with the administering entity and the Board in all matters related to the peer review, including taking remedial, corrective actions as needed.

142. In deciding on the need for and nature of any corrective actions in addition to those described by the firm in its response in the FFC form, the committee should consider the nature, significance, and for

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<sup>18</sup> The responsibilities and the role of technical reviewers are included in the AICPA Peer Review Program Report Acceptance Body Handbook which is provided to all administering entities.

System Reviews, the causes, pattern, pervasiveness and implications/significance to the system of quality control as a whole, of the findings. It should evaluate whether the recommendations of the review team appear to address those findings adequately and whether the reviewed firm's responses to those recommendations appear comprehensive, genuine, and feasible.

143. If the peer review committee determines, as part of its deliberations in accepting a report, that corrective actions in addition to or as an affirmation of those described by the firm in its response on the FFC are warranted, the firm will be required to evidence its agreement to perform these corrective action(s) in writing and complete the action(s) as a condition of cooperation with the administering entity and the Board (See Interpretations). Although agreeing to and completing such action(s) are not tied to the acceptance of the peer review, should a firm fail to cooperate, the firm would be subject to due process procedures that could result in the firm's enrollment in the Program being terminated. The resulting MFC, DMFC and the FFC forms, as well as any correspondences relating to additional actions to be taken by the firm related to these documents, are a part of the peer reviewer's working papers and are outside of the reporting and acceptance process.

144. If a reviewed firm refuses to cooperate, fails to correct deficiencies or significant deficiencies, or is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate, the Board may decide, pursuant to due process procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the Program should be terminated or whether some other action should be taken. A firm that receives peer reviews with recurring deficiencies or significant deficiencies that are not corrected may be deemed as a firm refusing to cooperate. In addition, a firm that fails to correct deficiencies or significant deficiencies after consecutive corrective actions requested by the committee may also be deemed as a firm refusing to cooperate.

145. If a decision is made by the hearing panel to terminate a firm's enrollment in the Program, the firm will have the right to appeal to the AICPA Joint Trial Board for a review of the hearing panel's findings. The fact that a firm's enrollment in the Program has been terminated shall be published in such form and manner as the AICPA Council may prescribe.

## Publicizing Peer Review Information

146. The reviewed firm should not publicize the results of the review or distribute copies of the peer review report to its personnel, clients, or others until it has been advised that the report has been *accepted* (See Interpretations) by the administering entity as meeting the requirements of the Program. Neither the administering entity nor the AICPA shall make the results of the review available to the public, except as authorized or permitted by the firm under certain circumstances (See Interpretations). The administering entity and the AICPA may disclose the following information:

- a. The firm's name and address.
- b. The firm's enrollment in the Program.
- c. The date of acceptance and the period covered by the firm's most recently accepted peer review.
- d. If applicable, whether the firm's enrollment in the Program has been dropped or terminated.

## Evaluating Peer Reviewers' Performance

147. A team captain, review captain or reviewer (hereinafter, reviewer) has a responsibility to perform a review in a timely, professional manner. This relates not only to the initial submission of the report, and materials on the review, but also to the timely completion of any additional actions necessary to complete the review, such as completing omitted documentation of the work performed on the review or resolving

## Standards for Performing and Reporting on Peer Reviews

questions raised by the committee or technical reviewer accepting the review as well as the Board and AICPA staff.

148. In considering peer review documents for acceptance, the committee evaluates the reviewer's performance on the peer review. In addition to the committee's evaluation, the Board and AICPA staff also evaluate and track reviewers' performance on peer reviews. If serious weaknesses in the reviewer's performance are noted on a particular review, or if a pattern of poor performance by a particular reviewer is noted, then the Board or committee, depending on the particular circumstances, will consider the need to impose corrective actions on the service of the reviewer. The Board or committee may require the reviewer to comply with certain actions in order for the reviewer to continue performing peer reviews, such as (but not limited to) the following:

- a. Submitting evidence of attendance at a future reviewer's training or accounting or auditing course(s)
- b. Having committee oversight on the next review(s) performed by the reviewer at the expense of the reviewer's firm (including out-of-pocket expenses, such as cost of travel)
- c. Submitting all reports and appropriate documentation on all outstanding peer reviews before scheduling or performing another review
- d. Having preissuance review(s) of the report and peer review documentation on future peer reviews by an individual acceptable to the committee chair or designee who has experience in performing peer reviews

149. In situations in which one or more of such actions is imposed, the administering entity will inform the Board, and may request that the Board ratify the action(s) to be recognized by other administering entities.

150. Any condition imposed on a reviewer will generally apply to the individual's service as a team captain, review captain or a team member unless the condition is specific to the individual's service as only a team captain, review captain or team member.

151. If a reviewer refuses to cooperate with the committee or Board, fails to revise peer review documents as requested by the committee or Board, fails to correct the poor performance, or is found to be deficient in his or her performance, and education or other corrective or monitoring actions are not considered adequate to correct the poor performance, the committee may recommend to the Board that the reviewer be prohibited from performing peer reviews in the future. In such situations imposed by a committee, the Board would consider ratifying the action(s) taken by the committee for the reviewer's name to be removed from the list of qualified reviewers. The Board may decide, with or without committee recommendation pursuant to due process procedures that it has established, to consider whether the reviewer should be prohibited from performing peer reviews or whether some other action should be taken.

152. Corrective or other action(s) can only initially be appealed to the committee that imposed the action(s). For actions previously appealed to the committee or imposed or ratified by the Board, if the reviewer disagrees with the corrective action(s), he or she may appeal the decision by writing the Board, explaining why he or she believes that the action(s) are unwarranted. The Board will review and consider the request upon its receipt.

153. If a reviewer has a corrective or other action(s) imposed on him/her by the committee or Board, and the reviewer had previously been approved to perform a peer review that has either begun or has yet to begin, then the committee or Board will need to consider whether the review should be performed by another reviewer, or that the review be overseen by a member of the committee at the reviewer's expense, or other actions, if any (whether or not the reviewer has filed an appeal with the committee or



Board). If the reviewer has completed the fieldwork on one or more peer reviews prior to the imposition of the corrective action, then the committee or Board will consider what action, if any, to take regarding those peer reviews based on the facts and circumstances.

## **Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Educational (CPE) Programs**

### **Introduction**

154. Quality control materials (QCM) are materials that are suitable for adoption by a firm as an integral part of that firm's system of quality control. Such materials provide guidance to assist firms in performing and reporting in conformity with professional standards and may include, but are not limited to, such items as:

- a. Engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams.
- b. Personnel manuals, inspection checklists, hiring forms, and client acceptance and continuance forms.

155. Occasionally, organizations (hereinafter referred to as "providers") may sell or otherwise distribute to CPA firms (hereinafter referred to as "user firms") QCM that they have developed. They may also sell or distribute continuing professional education programs (hereinafter referred to as "CPE programs").

156. Providers may elect voluntarily or be required (see paragraph 159) to have an independent review of their system of quality control for the development and maintenance of the QCM or CPE programs they have developed and of the materials themselves. The reasons for having such a review are—

- a. To provide assurance to user firms that the QCM or CPE programs they have acquired are reliable aids to assist them in conforming to those professional standards the materials purport to encompass.
- b. To provide more cost-effective peer reviews for firms that have acquired or use such materials.
- c. To assure that independence and objectivity on peer reviews of user firms is maintained when such peer reviews are performed by providers or other user firms in the same association of CPA firms.

157. A summary of the nature, objectives, scope, limitations of and procedures performed on QCM or CPE programs is included in Appendix A.

### **Objectives of a Peer Review of QCM or CPE Programs**

158. The objectives of a peer review of QCM or CPE programs developed by a provider are—

- a. To determine whether the provider's system for the development and maintenance of the QCM or the CPE programs was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.
- b. To determine whether the resultant materials are reliable aids.

## Applicability

159. An independent review of the system for the development and maintenance of QCM or CPE programs and the resultant materials (the “QCM review” or “CPE review”) is required for the following classes of providers:

- a. A member firm providing QCM or CPE programs to another member firm for which the provider firm will perform the peer review
- b. An association of CPA firms’ provider when a user firm in the association will perform a peer review of another user firm in the association

160. A provider of QCM or CPE programs falling into either of these categories should have a QCM or CPE review once every three years and should arrange to have such a peer review administered by the National PRC performed in accordance with these *Standards*. In the event of substantial change in the system for the development and maintenance of the materials or in the resultant materials, the provider should consult with the National PRC to determine whether an accelerated peer review is warranted.

161. Any other provider of QCM or CPE programs that voluntarily elects to have a QCM or CPE review performed in accordance with these *Standards* should also consult with the National PRC. A provider may have a review voluntarily so that peer reviewers of user firms can place reliance on the QCM or CPE review to reduce the scope of the review of the firm’s QCM or CPE programs.

162. A QCM or CPE review under these *Standards* may not include materials relating to audits of SEC issuers performed pursuant to the standards of the PCAOB.

163. All providers that plan to have a QCM or CPE review performed in accordance with these *Standards* must notify the National PRC in advance of that review so it can be appropriately scheduled. If a QCM or CPE review has commenced, providers must also notify the National PRC before a review is terminated prior to completion.

## Qualifications for Serving as QCM or CPE Reviewers

164. A QCM or CPE review team may be formed by a firm engaged by the firm under review (a firm-on-firm review), or an association of CPA firms authorized by the Board to assist its members in forming review teams (an association formed review team). Peer reviews of association QCM or CPE programs may not be performed by a member of the association whose materials or programs are being reviewed. Furthermore, the National PRC will not appoint to the QCM or CPE review team a person with a firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the QCM or CPE review, such as someone who assisted in the development or review of such materials or uses the materials as an integral part of the firm’s system of quality control.

165. A QCM or CPE reviewer shall possess the qualifications set forth in the paragraphs under “Organizing the System or Engagement Review Team” and “Qualifying for Service as a Peer Reviewer” (See paragraphs 26 through 35).

## Procedures for Performing QCM or CPE Reviews

166. The provider should identify the materials, whether QCM or CPE program materials, to be reviewed and on which an opinion is to be expressed. A QCM or CPE review should include a study and

## Guidance for Performing and Reporting on Peer Reviews

evaluation of the system for the development and maintenance of the QCM or CPE program that have been identified and a review of the materials themselves.

167. A provider's system for the development and maintenance of the materials normally should include:

- a. A requirement that the materials be developed by individuals qualified in the subject matter.
- b. A requirement that the materials be reviewed for technical accuracy by a qualified person(s) other than the developer(s) to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass.
- c. Procedures to ensure the currency and relevancy of the materials.
- d. Procedures for soliciting and evaluating feedback from users of the materials.
- e. Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials, and the provider's policy, if any, regarding the issuance of updates to the materials and, if a policy exists, the method of updating.
- f. Procedures for ensuring that the materials are updated in accordance with the provider's policy when it has undertaken to update them.

168. A study and evaluation of the system for the development and maintenance of the materials normally should include the following procedures:

- a. Reviewing and evaluating the procedures established for developing and maintaining the materials.
- b. Reviewing and evaluating the procedures established for updating (including distributing) the materials to assure that the materials remain current and relevant when the provider has undertaken the responsibility for updating the materials (and for communicating any relevant changes in professional standards to program participants should new professional standards be issued prior to updating the CPE programs).
- c. Reviewing the technical competence of the developer(s)/updater(s) of the materials.
- d. Obtaining evidence that the materials were reviewed for technical accuracy by qualified person(s) other than the developer(s)/updater(s).
- e. Determining whether the provider has appropriately communicated its policy regarding the period covered by the materials, the professional standards the materials purport to encompass, and the provider's intention to update the materials.
- f. Reviewing the system developed for soliciting and evaluating feedback from users of the materials.

169. A QCM or CPE review team should review the resultant materials, to the extent deemed necessary, to evaluate whether the materials are reliable aids to assist firms in conforming to those professional standards the materials purport to encompass.

## Reporting on QCM or CPE Reviews

### General

170. The QCM or CPE review team should furnish the provider with a written report and the final FFC forms within thirty days of the date of the exit conference or by the provider's review due date, whichever is earlier. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the firm of the team captain performing the review. The report in a QCM or CPE review ordinarily should be dated as of the date of the exit conference. See Interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity.

171. The provider should submit a copy of the report, and its response, if applicable, to all deficiencies or significant deficiencies discussed in the report to the administering entity within thirty days of the date it received the report or by the provider's peer review due date, whichever date is earlier. Prior to submitting the response, if applicable, to the administering entity, the reviewed firm should submit the response to the team captain for review and comment.

### **Preparing the Report in a QCM or CPE Review**

172. The standard form for a peer review report on QCM or CPE programs with a peer review rating of pass and pass with deficiencies are included in Appendix O "Illustration of a Report with a Peer Review Rating of Pass on a Peer Review of Quality Control Materials or CPE Programs" and Appendix P "Illustration of a Report with a Peer Review Rating of Pass with Deficiencies on a Peer Review of Quality Control Materials or CPE Programs", respectively. The standard form for a report with a peer review rating of fail is similar to that for a System Review with the appropriate modifications as reflected in Appendixes O and P.

173. A QCM or CPE Report with a rating of pass, pass with deficiencies or fail shall contain elements similar to those in a System Review Report. As such, the written report in a QCM or CPE System Review should:

- a. State at the top of the page the title of "Quality Control Materials Review Report" or "CPE Programs Review Report".
- b. State that the system of quality control for the development and maintenance of the materials and the resultant materials in effect at the year-end covered by the peer review were reviewed.
- c. State that the peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* established by the Peer Review Board of the American Institute of Certified Public Accountants.
- d. State that the organization is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in performing and reporting in conformity with applicable professional standards in all material respects those professional standards that the materials purport to encompass.
- e. State that the reviewer's responsibility is to express an opinion on the design of the system of quality control and the organization's compliance therewith based on the review.
- f. State that the nature, objectives, scope, limitations of and procedures performed in a Quality Control Materials Review or CPE Programs Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009.
- g. Include a URL reference to the AICPA website where the *Standards* are located.
- h. Identify the different peer review ratings that the organization could receive.
- i. In a report with a peer review rating of pass:
  - Express an opinion that the system of quality control for the development and maintenance of the quality control materials or CPE Program was suitably designed and was being complied with during the year ended to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass and
  - Express an opinion that the quality control materials or CPE Program were reliable aids at the year end and
  - State at the end of the opinion paragraph that therefore the report reflects a peer review rating of pass.

## Guidance for Performing and Reporting on Peer Reviews

- j. In a report with a peer review rating of pass with deficiencies<sup>19</sup>:
  - Express an opinion that, except for the deficiencies described above, the system of quality control for the development and maintenance of the quality control materials or CPE Program was suitably designed and was being complied with during the year ended to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass
  - State at the end of the opinion paragraph that therefore the report reflects a peer review rating of pass with deficiencies.
- k. In a report with a peer review rating of fail:
  - Express an opinion that as a result of the significant deficiencies described above, that the system of quality control for the development and maintenance of the quality control materials or CPE Program was not suitably designed and being complied with during the year ended to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass
  - State at the end of the opinion paragraph that therefore the firm has received a peer review rating of fail.
- l. Include, for reports with a peer review rating of pass with deficiencies or fail, systemically written descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations. Each of these should be numbered. Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies or recommendations.
- m. Identify, for any deficiencies or significant deficiencies included in the report with a peer review rating of pass with deficiencies or fail, any that were also made in the report<sup>20</sup> issued on the organization's previous peer review. This should be determined based on the underlying systemic cause of the deficiencies or significant deficiencies.

### Forming Conclusions on the Type of Report to Issue in a QCM or CPE Review

174. The following circumstances ordinarily would be considered deficiencies or significant deficiencies and would require a report with a peer review rating of pass with deficiencies or fail:

- a. The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary.
- b. The provider's system of quality control for the development and maintenance of QCM or CPE programs, as designed, did not provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass.
- c. The degree of compliance with the provider's system of quality control for the development and maintenance of QCM or CPE programs was not sufficient to provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass.
- d. The resultant QCM or CPE programs are not reliable aids to assist user firms in conforming to those professional standards the materials purport to encompass.

175. In those instances in which the QCM or CPE review team determines that a report with a peer review rating of pass with deficiencies or fail is required, all the reasons should be disclosed and the QCM or CPE review team should consult with the National PRC prior to the issuance of the report.

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<sup>19</sup> Reference to plural could also apply to a singular item within the *Standards*. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

<sup>20</sup> And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.

## **Provider Responses on QCM and CPE Program Reviews**

176. The provider is required to respond in writing to the deficiencies and significant deficiencies and related recommendations identified in the report, if applicable. The response should be addressed to the AICPA Peer Review Board and should describe the action(s) planned or taken with respect to each deficiency or significant deficiency in the report. If the provider disagrees with one or more of the deficiencies or significant deficiencies, its response should describe the reasons for such disagreement. In the event that a material error or omission in the QCM or CPE programs is uncovered by the QCM or CPE review team, the response also should describe the provider's plan for notifying known users of that error or omission. The provider should submit the letter of response for review and comment to the team captain prior to submitting the response to the National PRC.

## **Effective Date**

177. The effective date for these *Standards* is for peer reviews commencing on or after January 1, 2009. Early implementation is not permitted.

178. **Appendix A**

## **Summary of the Nature, Objectives, Scope, Limitations of and Procedures Performed in System and Engagement Reviews, and in QCM and CPE Program Reviews**

1. Firms (and individuals) enrolled in the AICPA Peer Review Program (Program) are required to have a peer review, once every three years, of their accounting and auditing practice related to non-SEC issuers covering a one-year period. The peer review is conducted by an independent evaluator. The AICPA oversees the Program and the review is administered by an entity approved by the AICPA to perform that role.
2. The peer review helps to monitor a CPA firm's accounting and auditing practice ("practice monitoring"). The goal of the practice monitoring, and the Program itself, is to promote quality in the accounting and auditing services provided by the AICPA members and their CPA firms. This goal serves the public interest and enhances the significance of AICPA membership.
3. There are two types of peer reviews: System Reviews and Engagement Reviews. System Reviews focus on a firm's system of quality control, while Engagement Reviews focus on work performed on particular selected engagements. As noted in paragraphs 4 and 157, a further description of System and Engagement Reviews, and QCM and CPE Reviews, as well as a summary of the nature, objectives, scope, limitations of and procedures performed on them, is provided below.

### System Reviews

A System Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of a CPA firm's system of quality control ("System") to perform accounting and auditing work ("Work"). The System represents the policies and procedures that the CPA firm has designed, and is expected to follow, when performing its Work. The peer reviewer's objective is to determine whether the System is *designed* to ensure conformity with professional standards and whether the firm is *complying with* its System appropriately.

Professional standards are literature, issued by various organizations, that contain the framework and rules that a CPA firm is expected to comply with when designing its System and when performing its Work. Professional standards includes the *Statement on Quality Control Standards* issued by the American Institute of Certified Public Accountants (AICPA) which pertains to leadership responsibilities for quality within the firm ("tone at the top"); independence, integrity and objectivity and other legal and ethical requirements; acceptance and continuance of client relationships and specific engagements; human resources; engagement performance and engagement documentation, and monitoring.

To plan a System Review, a peer reviewer obtains an understanding of (1) the firm's accounting and auditing practice (Practice), such as the industries of its clients, and (2) the design of the firm's System, including its policies and procedures and how the firm checks itself that it is complying with them. The reviewer assesses the risk levels implicit within different aspects of the firm's Practice and its System. The reviewer obtains this understanding through inquiry of firm personnel and review of documentation on the System, such as firm manuals.

Based on the peer reviewer's planning procedures, the reviewer looks at a sample of the CPA firm's Work, individually called engagements. The reviewer selects engagements for the period covered by the review from a cross-section of the firm's practice with emphasis on higher-risk engagements. The

## Standards for Performing and Reporting on Peer Reviews

engagements selected include engagements performed under *Government Auditing Standards*, audits of Employee Benefit Plans, and audits of Depository Institutions (with assets of \$500 million or greater) when applicable. The scope of a peer review only covers accounting and auditing engagements; it does not include the firm's SEC issuer practice, nor does it include tax or consulting services. The reviewer will also look at administrative elements of the firm's practice, to test the elements listed above from the *Statement of Quality Control Standards*.

The reviewer examines engagement working paper files and reports, interviews selected firm personnel, reviews representations from the firm and examines selected administrative and personnel files. The objectives of obtaining an understanding of the System and then testing the System forms the basis for the reviewer's conclusions in the peer review report.

When a CPA firm receives a report from the peer reviewer with a peer review rating of pass, the report means that the System is appropriately designed and being complied with by the CPA firm in all material respects. If a CPA firm receives a report with a peer review rating of pass with deficiencies, this means the system is designed and being complied with appropriately by the CPA firm in all material respects, except in certain situations that are explained in detail in the peer review report. When a firm receives a report with a peer review rating of fail, the peer reviewer has determined that the firm's System is not suitably designed or being complied with and the reasons why are explained in detail in the report.

There are inherent limitations in the effectiveness of any System and, therefore, noncompliance with the System may occur and not be detected. A peer review is based on *selective* tests. It is directed at assessing whether the design of and compliance with the firm's System provides the firm with reasonable, not absolute, assurance of conforming to applicable professional standards. Consequently, it would not necessarily detect all weaknesses in the System or all instances of noncompliance with it. It does not provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated. Projection of any evaluation of a System to future periods is subject to the risk that the System may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

### Engagement Reviews

An Engagement Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of a sample of a CPA firm's actual accounting work ("Work"), including accounting reports issued and documentation prepared by the CPA firm, as well as performing other procedures.

By definition, CPA firms undergoing Engagement Reviews do not perform audits or other similar engagements but do perform other accounting Work including reviews and compilations, which are a lower level of service than audits. The peer reviewer's objective is to evaluate whether the CPA firm's reports are issued and procedures performed appropriately in accordance with applicable professional standards. Therefore, the objective of an Engagement Review is different from the objectives of a System Review, which is more system oriented and involves determining whether the System is *designed* in conformity with applicable professional standards and whether the firm is *complying with* its System appropriately.

Professional standards represent literature, issued by various organizations, that contain the framework and rules that a CPA firm is expected to follow when performing accounting Work.

The reviewer looks at a sample of the CPA firm's Work, individually called engagements. The scope of an Engagement Review only covers accounting engagements; it does not include tax or consulting services. An Engagement Review consists of reading the financial statements or information submitted by the



## Guidance for Performing and Reporting on Peer Reviews

reviewed firm and the accountant's report thereon, together with certain background information and representations from the firm and, except for certain compilation engagements, the documentation required by applicable professional standards.

When the CPA firm receives a report with a peer review rating of pass, the peer reviewer has concluded that nothing came to his or her attention that the CPA firm's Work was not performed and reported in conformity with applicable professional standards in all material respects. A report with a peer review rating of pass with deficiencies is issued when the reviewer concludes that nothing came to his or her attention that the Work was not performed and reported in conformity with applicable professional standards in all material respects, except in certain situations which are explained in detail in the report. A report with a peer review rating of fail is issued when the reviewer concludes that as a result of the situations described in the report, the Work was not performed and/or reported in conformity with applicable professional standards in all material respects.

An Engagement Review does not provide the reviewer with a basis for expressing any assurance as to the firm's system of quality control for its accounting practice, and no opinion is expressed or any form of assurance on that system.

### Quality Control Materials or CPE Program Reviews

A Quality Control Materials (QCM) or CPE Program (CPE) Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of an organization's (hereinafter referred to as "provider") system of quality control ("System") to develop and maintain ("develop") quality control materials ("materials"). The System represents the provider's policies and procedures that the provider has designed, and is expected to follow, when developing the materials. The peer reviewer's objective is to determine whether the System is *designed* and whether the organization is *complying with* its System appropriately so that users of the materials, primarily CPA firms and their employees, know that they can rely on the materials. The materials can be part or all of a firm's documentation of their System, in the form of, for example, manuals, programs and practice aids (forms, questionnaires, etc). As such, the users rely on the materials to assist them in performing and reporting in conformity with professional standards (as described in the paragraphs above) in conducting their accounting and auditing practices.

A QCM or CPE review is similar to a System Review, however the focus is on the System for developing the materials, instead of on the System for the performance of accounting and auditing work. A reviewer obtains an understanding of the design of the provider's System, including its policies and procedures and how the provider checks itself that it is complying with them. The reviewer obtains this understanding through inquiry of provider personnel and review of documentation on the System. The reviewer also reviews the materials to determine if they are reliable. The objectives of obtaining an understanding of the System and then reviewing the materials forms the basis for the reviewer's conclusions in the peer review report.

The extent of a provider's policies and procedures and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the provider and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible.

When a provider receives a QCM or CPE review report from a peer reviewer with a peer review rating of pass, this means the System is designed and being complied with appropriately to provide users of the materials with reasonable assurance that the materials are reliable. If a provider receives a report with a peer review rating of pass with deficiencies, this means the System is designed and complied with

## Standards for Performing and Reporting on Peer Reviews

appropriately to provide users of the materials with reasonable assurance that the materials are reliable, except in certain situations that are explained in detail in the peer review report. When a provider receives a report with a peer review rating of fail, the peer reviewer has determined that the provider's System is not suitably designed or being complied with to provide users of the materials with reasonable assurance that the materials are reliable, and the reasons why are explained in detail in the report.

There are inherent limitations in the effectiveness of any System and, therefore, noncompliance with the System may occur and not be detected. A QCM or CPE peer review is based on *selective* review of the materials. It is directed at assessing whether the design of and compliance with the provider's System provides the provider with reasonable, not absolute, assurance of the materials conforming with the professional standards they purport to encompass. Consequently it would not necessarily detect all weaknesses in the System, all instances of noncompliance with it or that each aspect of the materials is accurate or reliable. Projection of any evaluation of a System to future periods is subject to the risk that the System may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

179. **Appendix B**

## **Considerations and Illustrations of Firm Representations**

1. The team captain/review captain obtains written representations from management of the reviewed firm to describe matters significant to the peer review in order to assist in the planning and performance of and the reporting on the peer review. In connection with System and Engagement Reviews, specific representations should relate to the following matters, although the firm is not prohibited from making additional representations, and the firm may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made:

- a.* Situations or a summary of situations where management is aware that the firm or its personnel has not complied with state board(s) of accountancy or other regulatory bodies rules and regulations, (including applicable firm and individual licensing requirements in each state in which it practices for the year under review), and if applicable how the firm has or is addressing and rectifying situations of noncompliance.
- b.* The reviewed firm should inform the reviewer of communications or summary of communications from regulatory, monitoring or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its professional personnel, within the three years preceding the firm's current peer review year-end and through the date of the exit conference. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review (See Interpretations). In addition, the reviewer may inquire if there are any other issues that may affect the firm's practice.
- c.* Restrictions or limitations on the firm's or its professional personnel's ability to practice public accounting by regulatory, monitoring or enforcement bodies within three years preceding the current peer review year-end.
- d.* Completeness and availability of the engagements with periods ending during the year under review. For engagements performed under the SSAEs, including financial forecasts and projections, this includes those with report dates during the year under review.
- e.* Discussions of significant issues from reports/communications from other practice monitoring/external inspection programs, such as the PCAOB's (See Interpretations), with the team captain.
- f.* Other representations obtained by the team captain/review captain will depend on the circumstances and nature of the peer review.

2. The written representations should be obtained for the entire firm and not for each individual engagement the firm performs. Management's refusal to furnish written representations constitutes a limitation of the peer review sufficient for the team captain/review captain to consider whether to issue a report with a peer review rating of pass with deficiencies for a scope limitation, or a report with a peer review rating of fail, or to withdraw from the peer review.

3. On System Reviews, the written representations should be addressed to the team captain. Since the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the report or other peer review documents, the representations should be dated the same date as the peer review report. The written

representations should be signed by those members of management whom the team captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner/manager in charge of the firm's system of quality control. If a representation made by management is contradicted by other information obtained, the team captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report.

4. On Engagement Reviews, the representations should be addressed to the review captain (for example, "To John Smith, CPA" or on CART reviews where appropriate, it may be addressed "To the Review Captain") and dated the same date that the firm submits the list of engagements to the reviewer or the administering entity. The written representations should be signed by those members of management whom the reviewer or the administering entity believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control (even though an Engagement Review). Such members of management normally include the managing partner and partner/manager in charge of the firm's system of quality control. If a representation made by management is contradicted by other information obtained, the reviewer should investigate the circumstances and consider the reliability of the representations made and any effect on the report.

#### **5. Illustration of a Representation Letter that has No Significant Matters to Report to the Team Captain/Review Captain**

(The firm may tailor the language in this illustration and may refer to attachments to the letter as long as adequate representations pertaining to the matters discussed above, as applicable, are included to the satisfaction of the team captain/review captain)

October 31, 20XX

To the Team Captain/Review Captain

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations where [name of firm] or its personnel have not complied with state board(s) of accountancy or other regulatory bodies' rules and regulations, including applicable firm and individual licensing requirements in each state in which it practices for the year under review. We have also provided a list of all engagements to the [team captain/review captain/administering entity] with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the list included those engagements with report dates during the year under review. We have also provided the [team captain/review captain] with any other information requested, including communications by regulatory, monitoring or enforcement bodies relating to allegations or investigations in the conduct of its accounting, audit or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its professional personnel, within three years preceding the current peer review year-end. In addition there are no known restrictions or limitations on the firm's or its professional personnel's ability to practice public accounting by regulatory, monitoring or enforcement bodies within three years preceding the current peer review year-end. We have also discussed the content of our PCAOB inspection report with the [team captain/review captain] (if applicable).

Sincerely,  
*[Name of reviewed firm]*

## **6. Illustration of a Representation Letter that has been Tailored to Report to the Team Captain a Matter of Non-Compliance with a Regulatory Requirement**

(The firm may tailor the language in this illustration and may refer to attachments to the letter as long as adequate representations pertaining to the matters discussed above, as applicable, are included to the satisfaction of the team captain/review captain)

October 31, 20XX

To the Team Captain/Review Captain

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. Other than the firm not having a practice unit license during the year under review in one state where the firm practices (which has been subsequently obtained), we confirm, to the best of our knowledge and belief, that there are no known situations where [name of firm] or its personnel have not complied with state board(s) of accountancy or other regulatory bodies' rules and regulations, including applicable firm and individual licensing requirements in each state in which it practices for the year under review. We have also provided a list of all engagements to the [team captain/review captain/administering entity] with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the list included those engagements with report dates during the year under review. We have also provided the [team captain] with any other information requested, including communications by regulatory, monitoring or enforcement bodies relating to allegations or investigations in the conduct of its accounting, audit or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its professional personnel, within three years preceding the current peer review year-end. In addition there are no known restrictions or limitations on the firm's or its professional personnel's ability to practice public accounting within three years preceding the current peer review year-end. We have also discussed the content of our PCAOB inspection report with the team captain (if applicable).

Sincerely,

*[Name of reviewed firm]*

180. **Appendix C**

## **Illustration of a Report with a Peer Review Rating of Pass in a System Review**

[Firm letterhead for a “Firm-on-Firm Review”; Team Captain’s Firm letterhead for an “Association Formed Review Team”]

### **System Review Report**

October 31, 20XX

To the Partners of [or other appropriate terminology]

XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable Administering Entity]

We\* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* (“Standards”) established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of and the procedures performed in a System Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

As required by the Standards, engagements selected for review included (engagements performed under the *Government Auditing Standards*; audits of Employee Benefit Plans, and audits performed under FDICIA)\*\*.

In our opinion, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. The firm has received a peer review rating of pass.

Smith, Jones and Associates

[name of team captain’s firm]

\* The report should use the plural “we,” “us,” and “our” even if the review team consists of only one person. The singular “I,” “me,” and “my” is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

\*\* If the firm performs audits of Employee Benefit Plans, engagements performed under *Government Auditing Standards*, audits of Depository Institutions with total assets of \$500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the Board in Interpretations, the engagement type(s) selected for review should be identified in the report.

## 181. Appendix D

# Illustration of a Report with a Peer Review Rating of Pass with Deficiencies in a System Review

[Firm letterhead for a “Firm-on-Firm Review”; Team Captain’s Firm letterhead for an “Association Formed Review Team”]

## System Review Report

August 31, 20XX

To the Partners of [or other appropriate terminology]

XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable Administering Entity]

We\* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* (“Standards”) established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of and the procedures performed in a System Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

As required by the Standards, engagements selected for review included (engagements performed under the *Government Auditing Standards*; audits of Employee Benefit Plans, and audits performed under FDICIA)\*\*.

We noted the following deficiencies\*\*\* during our review:

1. Deficiency - The firm’s quality control policies and procedures do not provide its staff with a means of ensuring that all necessary procedures are performed on review and compilation engagements. As a result, the firm’s review and compilation working papers did not include documentation of all procedures required by professional standards. We were able to satisfy ourselves that, in each case, sufficient procedures had been performed.

Recommendation – Although not required by professional standards, the firm should consider using the practice aids in the reference manuals available in the firm’s library.

2. Deficiency – The firm’s quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but emphasize the importance of proper planning to the conduct of the engagement. We found several audits performed in which, as a result of a lack of involvement, including timely supervision by the engagement partner in planning the audit, the work performed on contracts, contract

## Standards for Performing and Reporting on Peer Reviews

provisions and related receivables did not support the firm's opinion on the financial statements. The firm has subsequently performed the necessary additional procedures to provide a satisfactory basis for its opinion.

Recommendation – The firm's quality control policies and procedures should be revised to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program. The firm should ensure that this is addressed as part of its ongoing monitoring procedures.

3. Deficiency – The firm's quality control policies and procedures require that financial statement reporting and disclosure checklists appropriate to the industry of the engagement being performed be completed. Our review noted that these checklists were not being used on all engagements. As a result, the reviewed financial statements in the construction industry were missing several significant disclosures specific to the industry as required by generally accepted accounting principles. The subject reports have been recalled and the financial statements are being revised.

Recommendation – The firm should conduct a training session for all professional staff to review the firm's policies and procedures for utilizing financial statement reporting and disclosure checklists which are appropriate to the industry of an engagement. The engagement partner should carefully review these checklists at the completion of an engagement to ensure that the appropriate checklists are utilized and to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm's engagement review checklist requiring the engagement partner to document his or her review of these checklists.

In our opinion, except for the deficiencies described above, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. The firm has received a peer review rating of pass with deficiencies.

Smith, Jones and Associates  
*[name of team captain's firm]*

- \* The report should use the plural "we," "us," and "our" even if the review team consists of only one person. The singular "I," "me," and "my" is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.
- \*\* If the firm performs audits of Employee Benefit Plans, engagements performed under *Government Auditing Standards*, audits of Depository Institutions with total assets of \$500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the Board in Interpretations, the engagement type(s) selected for review should be identified in the report.
- \*\*\* The deficiencies and related recommendations provided are examples provided for illustrative purposes only.



182. **Appendix E**

**Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Pass with Deficiencies in a System Review**

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions, to prevent a recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For more information related to disagreements, see paragraph 93 of the *Standards*. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (See paragraphs 136 through 140 "Accepting System and Engagement Reviews"). The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity.

*[Reviewed Firm's letterhead]*

September 21, 20XX

*[Addressed to the peer review committee of the administering entity]*

Ladies and Gentlemen:

This letter represents our\* response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The corrective actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

1.\*\* The firm modified its quality control policies and procedures to require the use of practice aids to document procedures performed on review and compilation engagements. Partners were instructed to ensure that these aids were being utilized appropriately when reviewing engagements. This policy was discussed in a recent training session held in connection with a recent firm-wide staff meeting.

2. The firm also modified its quality control policies and procedures to require a greater emphasis of partner involvement in the planning stage of all audit engagements. The revised policies and procedures require the engagement owner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner involvement, to quality work was emphasized in the training session referred to above.

3. In addition, at that training session, the importance of proper use of the firm's reporting and disclosure checklists appropriate to the industry of the engagement being performed was discussed. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's continuing education plan for partners and managers now includes annual updates on industry specific disclosure issues.

## Standards for Performing and Reporting on Peer Reviews

As mentioned above, these corrective actions will also be emphasized in our monitoring procedures and internal inspection.

We believe these actions are responsive to the findings of the review.

Sincerely,

[*Name of Firm*]\*\*\*

\* The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

\*\* The numbering of responses, to coincide with the numbered comments in the report, is optional.

\*\*\* Signed by an authorized partner of the firm

## 183. Appendix F

# Illustration of a Report with a Peer Review Rating of Pass with Deficiency for a Scope Limitation in a System Review

## Limitation on Scope of Review

A report with a peer review rating of pass with deficiencies should be issued when the scope of the review is limited by conditions (including those discussed in the *Standards*) that preclude the application of one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm's only engagement in an industry that must be selected is unavailable for review and there isn't an earlier issued engagement that may be able to replace it, or when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began.

[Firm letterhead for a "Firm-on-Firm Review"; Team Captain's Firm letterhead for an "Association Formed Review Team"]

## System Review Report

October 31, 20XX

To the Partners of [or other appropriate terminology]

XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable Administering Entity]

We\* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Except as described below, our peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* ("Standards") established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of and the procedures performed in a System Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

As required by the Standards, engagements selected for review included (audits of Employee Benefit Plans and audits performed under FDICIA)\*\*.

We noted the following deficiency\*\*\* during our review:

1. Deficiency – In performing our review, the firm notified us that we would be unable to select its only audit subject to *Government Auditing Standards* (Yellow Book). As a result, the firm was not in compliance with the Yellow Book peer review engagement selection requirements.

## Standards for Performing and Reporting on Peer Reviews

Recommendation – We recommend that the firm consider the importance of adhering to the Yellow Book requirements and the possible consequences of non-compliance.

In our opinion, except for the effects of the deficiency described above and any deficiencies that might have come to our attention had we not been limited in scope as described above, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. The firm has received a peer review rating of pass with deficiency.

Smith, Jones and Associates  
*[name of team captain's firm]*

- \* The report should use the plural “we,” “us,” and “our” even if the review team consists of only one person. The singular “I,” “me,” and “my” is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.
- \*\* If the firm performs audits of Employee Benefit Plans, engagements performed under *Government Auditing Standards*, audits of Depository Institutions with total assets of \$500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the Board in Interpretations, the engagement type(s) selected for review should be identified in the report.
- \*\*\* The deficiencies and related recommendations provided are examples provided for illustrative purposes only.

184. **Appendix G****Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Pass with Deficiency for a Scope Limitation in a System Review**

Although not required to do so, the firm may identify the reasons for the scope limitation as described in the report. If the reviewed firm disagrees with the scope limitation (or deficiencies or recommendations, if applicable) as described in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For more information related to disagreements, see paragraph 93 of the *Standards*. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs 136 through 140 "Accepting System and Engagement Reviews"). The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity.

*[Reviewed Firm's letterhead]*

November 30, 20XX

*[Addressed to the peer review committee of the administering entity]*

Ladies and Gentlemen:

This letter represents our\* response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX.

1.\*\* Due to circumstances that we deemed appropriate, we notified the peer reviewer that he would be unable to select our only audit subject to *Government Auditing Standards* in the peer review. This is the only governmental audit the firm has performed so there were no previous audits for the reviewer to select. We suggested selecting an audit engagement in a different industry. We have considered the consequences of non-compliance related to this matter.

Sincerely,

*[Name of Firm]*\*\*\*

\* The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

\*\* The numbering of responses, to coincide with the numbered comments in the report, is optional.

\*\*\* Signed by an authorized partner of the firm

185. **Appendix H**

## **Illustration of a Report with a Peer Review Rating of Fail in a System Review**

*The deficiencies in this illustration represent various examples and are not intended to suggest that the peer review would include this many engagements in the scope or require this number of deficiencies to warrant a report with a peer review rating of fail.*

[Firm letterhead for a “Firm-on-Firm Review”; Team Captain’s Firm letterhead for an “Association Formed Review Team”]

### **System Review Report**

October 31, 20XX

To the Partners of [or other appropriate terminology]

XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable Administering Entity]

We\* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* (“Standards”) established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of and the procedures performed in a System Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

As required by the Standards, engagements selected for review included (engagements performed under the *Government Auditing Standards*; audits of Employee Benefit Plans, and audits performed under FDICIA)\*\*.

We noted the following significant deficiencies\*\*\* during our review:

1. Deficiency – The firm’s quality control policies and procedures do not require written programs as required by professional standards. As a result, we noted several instances where audit procedures were not adequately performed and documented in the areas of investments and expenses. As a result, the audit work performed for several audits did not support the opinion issued and was not performed in conformity with applicable professional standards. The firm has subsequently performed the omitted procedures to support the audit opinions.

Recommendation – The firm’s quality control policies and procedures should require the use of audit programs on all audits. All audit programs should be retained with the engagement work papers.

2. Deficiency – The firm’s quality control policies and procedures require consultation based upon the following factors: materiality, experience in a particular industry or functional area, and familiarity with the accounting principles or auditing requirements in a specialized area. We noted

## Guidance for Performing and Reporting on Peer Reviews

instances where the firm did not consult during the year, either by use of the firm's technical reference material or by requesting assistance from outside the firm. As a result, financial statements on audits for development stage companies did not conform with applicable professional standards. The firm was not aware of the unique disclosure and statement presentations required until it was brought to its attention during the peer review. The firm intends to recall and reissue the financial statements and reports.

Recommendation - The firm should emphasize its consultation policies and procedures on those engagements that are new to the experience level of the firm's accounting and auditing personnel.

3. Deficiency – The firm's quality control policies and procedures do not provide its professional staff with a means of ensuring that all necessary procedures are performed on ERISA engagements. During our review, we noted that the firm failed to adequately perform and document procedures related to benefit payments on ERISA engagements. The firm has subsequently performed the testing and documented its procedures.

Recommendation – The firm should review and implement the requirements of specialized industries. This can be accomplished by the purchase and use of practice aids tailored to the industry.

4. Deficiency – The firm's quality control policies and procedures require that financial statement reporting and disclosure checklists be completed for all engagements. Our review noted that these checklists were not being used on all engagements. As a result, the reviewed financial statements in the construction industry were missing several significant disclosures as required by generally accepted accounting principles. The subject reports have been recalled and the financial statements are being revised.

Recommendation – The firm should conduct a training session for all professional staff to review the firm's policies and procedures for utilizing financial statement reporting and disclosure checklists specific to the industry of the engagement, when available. The engagement partner should carefully review these checklists at the completion of an engagement to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm's engagement review checklist requiring the engagement partner to document his or her review of these checklists.

In our opinion, as a result of the deficiencies described above, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX was not suitably designed or complied with to provide the firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. The firm has received a peer review rating of fail.

Smith, Jones and Associates  
*[name of team captain's firm]*

- \* The report should use the plural "we," "us," and "our" even if the review team consists of only one person. The singular "I," "me," and "my" is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.
- \*\* If the firm performs audits of Employee Benefit Plans, engagements performed under *Government Auditing Standards*, audits of Depository Institutions with total assets of \$500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the Board in Interpretations, the engagement type(s) selected for review should be identified in the report.
- \*\*\* The deficiencies and related recommendations provided are examples provided for illustrative purposes only

186. **Appendix I****Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Fail in a System Review**

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions, to prevent a recurrence of each of the significant deficiencies discussed in the report. If the reviewed firm disagrees with one or more of the significant deficiencies, or recommendations in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For more information related to disagreements, see paragraph 93 of the *Standards*. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (See paragraphs 136 through 140 "Accepting System and Engagement Reviews"). The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity.

November 30, 20XX

*[Addressed to the peer review committee of the administering entity]*

Ladies and Gentlemen:

This letter represents our\* response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. All issues have been brought to the attention of the professional staff at a meeting held on November 22, 20XX. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again.

Significant deficiencies that resulted in a peer review rating of fail:

1. \*\* Several of the deficiencies noted by the review team included missing or incomplete audit and review documentation. All individuals with responsibility for managing audit and accounting engagements have been reminded of their responsibility to ensure the applicable professional standards for performing and documenting engagements are followed. In addition, we have implemented a concurring partner review on all audit and review engagements and the quality of audit documentation will be a focus of the concurring partner's review.
2. The firm has contacted two other accounting firms with expertise in ERISA audits, development stage companies and other industries that are similar to ours. We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar.
3. We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use.
4. At the staff meeting mentioned above, the importance of proper use of the firm's reporting and disclosure checklist was discussed, including the use of checklists for specialized industries. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's continuing education plan for partners and managers now includes annual updates on disclosure issues.



## Guidance for Performing and Reporting on Peer Reviews

The firm is committed to strengthening its monitoring policies and procedures, especially as they relate to a timely post-issuance review of engagements. We have acquired quality control materials to guide the firm, and supervision of the monitoring process has been assigned to a partner. Additionally, outside assistance (as mentioned above) has been sought and this individual will be available for consultation and guidance

Sincerely,

[*Name of Firm*]\*\*\*

\* The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

\*\* The numbering of responses, to coincide with the numbered comments in the report, is optional.

\*\*\* Signed by an authorized partner of the firm

187. **Appendix J**

## **Illustration of a Report with a Peer Review Rating of Pass in an Engagement Review**

*[Administering Entity letterhead for a “CART Review”; firm letterhead for a “Firm-on-Firm Review”; Review Captain’s firm letterhead for an “Association Formed Review Team”]*

### **Engagement Review Report**

September 30, 20XX

To the Partners of *[or other appropriate terminology]*  
XYZ & Co.

and the Peer Review Committee of the *[insert the name of the applicable Administering Entity]*

We\* have reviewed selected accounting engagements of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* (“Standards”) established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to evaluate whether the engagements submitted for review were performed and reported in conformity with applicable professional standards in all material respects. The nature, objectives, scope, limitations of and the procedures performed in an Engagement Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

Based on our review, nothing came to our attention that the engagements submitted for review by XYZ & Co. for the year ended June 30, 20XX were not performed and reported in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. The firm has received a peer review rating of pass.

Smith, Jones and Associates

*[name of review captain’s firm on Firm-on-Firm Review or Association Formed Review Team]*

or

John Brown, Review Captain  
[CART Review]

\* The report should use the plural “we,” “us,” and “our” even if the review team consists of only one person. The singular “I,” “me,” and “my” is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

188. **Appendix K**

## **Illustration of a Report with a Peer Review Rating of Pass with Deficiencies in an Engagement Review**

*This illustration assumes that the firm had at least one other engagement that was reviewed which did not have a deficiency. Otherwise, this firm would have received a peer review rating of fail.*

*[Administering Entity letterhead for a “CART Review”; firm letterhead for a “Firm-on-Firm Review”; Review Captain’s firm letterhead for an “Association Formed Review Team”]*

### **Engagement Review Report**

September 30, 20XX

To the Partners of *[or other appropriate terminology]*  
XYZ & Co.

and the Peer Review Committee of the *[insert the name of the applicable Administering Entity]*

We\* have reviewed selected accounting engagements of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* (“Standards”) established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to evaluate whether the engagements submitted for review were performed and reported in conformity with applicable professional standards in all material respects. The nature, objectives, scope, limitations of and the procedures performed in an Engagement Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

We noted the following deficiencies\*\* during our review:

1. **Deficiency**— On one review engagement of a manufacturing client, we noted that the accompanying accountant’s report was not appropriately modified. The financial statements did not appropriately present or disclose matters in accordance with industry standards. The firm discussed the departure with the client and decided to recall its report and restate the accompanying financial statements in order to report in conformity with applicable professional standards in all material respects.

**Recommendation**— We recommend that the firm establish a means of ensuring that financial statements present or disclose matters in accordance with industry standards. Such means might include continuing professional education in the industries of the firm’s engagements, and although not required by professional standards, use of a comprehensive reporting and disclosure checklist on accounting engagements, tailored for specialized industries, where applicable, or a cold review of reports and financial statements prior to issuance.

## Standards for Performing and Reporting on Peer Reviews

2. Deficiency – On a review engagement we reviewed, we noted that the firm failed to obtain a management representation letter and its working papers failed to document the matters covered in the accountant’s inquiry and analytical procedures. These deficiencies were identified on the firm’s previous review.

Recommendation – The firm should review and implement the requirements for obtaining management representation letters and the content of the accountant’s working papers on review engagements.

Based on our review, except for the deficiencies described above, nothing came to our attention that the engagements submitted for review by XYZ & Co. for the year ended June 30, 20XX were not performed and reported in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. The firm has received a peer review rating of pass with deficiencies.

Smith, Jones and Associates

[*name of review captain’s firm on Firm-on-Firm Review or Association Formed Review Team*]

or

John Brown, Review Captain

[CART Review]

\* The report should use the plural “we,” “us,” and “our” even if the review team consists of only one person. The singular “I,” “me,” and “my” is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

\*\* The deficiencies and related recommendations provided are examples provided for illustrative purposes only

189. **Appendix L****Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Pass with Deficiencies in an Engagement Review**

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph 116 of *Standards*. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (See paragraphs 136 through 140 "Accepting System and Engagement Reviews"). The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity.

October 31, 20XX

*[Addressed to the peer review committee of the administering entity]*

Ladies and Gentlemen:

This letter represents our\* response to the report on the Engagement Review of our firm's accounting practice for the year ended June 30, 20XX.

1. \*\*As recommended by the reviewer, the entire staff has participated in continuing professional education related to reporting and disclosures, with a particular focus on areas specific to the industries that we are engaged in. We will be performing a preissuance review by a partner not associated with the engagement to make sure that the accountant's report is appropriately modified when the financial statements depart from applicable professional standards.
2. Management representation letters will be obtained for all future review engagements issued by the firm. The firm has required that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation, including the matters covered in the accountant's inquiry and analytical procedures, is included in the working papers.

We believe these actions address the matters noted by the reviewer.

Sincerely,  
*[Name of firm]*\*\*\*

---

\* The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

\*\* The numbering of responses, to coincide with the numbered comments in the report, is optional.

\*\*\* Signed by an authorized partner of the firm

190. **Appendix M**

## **Illustration of a Report with a Peer Review Rating of Fail in an Engagement Review**

*The deficiencies in this illustration represent various examples and are not intended to suggest that the peer review would include this many engagements in the scope or require this number of deficiencies to warrant a report with a peer review rating of fail. However, each of the engagements reviewed would have one or more deficiencies in a report with a peer review rating of fail.*

*[Administering Entity letterhead for a “CART Review”; firm letterhead for a “Firm-on-Firm Review”; Review Captain’s firm letterhead for an “Association Formed Review Team”]*

### **Engagement Review Report**

September 30, 20XX

To the Partners of *[or other appropriate terminology]*  
XYZ & Co.

and the Peer Review Committee of the *[insert the name of the applicable Administering Entity]*

We\* have reviewed selected accounting engagements of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* (“Standards”) established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to evaluate whether the engagements submitted for review were performed and reported in conformity with applicable professional standards in all material respects. The nature, objectives, scope, limitations of and the procedures performed in an Engagement Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

We noted the following significant deficiencies\*\* during our review:

1. Deficiency - Our review disclosed several failures to adhere to applicable professional standards in reporting on material departures from generally accepted accounting principles (GAAP) and in conforming to standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to conform with GAAP in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements. The compilation and review engagements were in the construction and manufacturing industries, respectively. In addition, the firm did not obtain management representation letters on review engagements.

Recommendation - We recommend the firm establish a means of ensuring its conformity with applicable professional standards. In addition, we recommend the firm review and implement the requirements for obtaining management representation letters on review engagements. The firm should either participate in continuing professional education in financial statement disclosures, use

## Guidance for Performing and Reporting on Peer Reviews

a reporting and disclosure checklist on accounting engagements (tailored if the financial statements are in a specialized industry), or conduct a pre-issuance review of the engagement by an individual not associated with the engagement prior to issuance.

2. Deficiency—During our review, we noted the firm did not modify its compilation reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented on a comprehensive basis of accounting other than generally accepted accounting principles. This deficiency was noted in the firm’s previous peer reviews.

Recommendation—We recommend that the firm review the reports issued during the last year and identify those reports that should have been modified to reflect a comprehensive basis of accounting other than generally accepted accounting principles. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom a report must be changed.

3. Deficiency—In the construction industry compilation engagements that we reviewed, disclosures of material lease obligations as required by generally accepted accounting principles were not included in the financial statements, and the omissions were not disclosed in the accountant’s reports.

Recommendation—We recommend the firm review and disseminate information regarding the disclosure requirements on specialized industries to all staff involved in reviewing or compiling financial statements. In addition, we recommend that the firm establish appropriate policies to ensure that all lease obligations are disclosed in financial statements reported on by the firm. For example, a step might be added to compilation and review work programs requiring that special attention be given to these areas.

4. Deficiency - During our review of the financial statements for a compilation engagement prepared under SSARS No. 8, for management use only, we noted that the engagement letter did not include all of the information required by applicable professional standards.

Recommendation - The firm should review the professional standards governing the information to be included in engagement letters for financial statements prepared for management use only and make sure it conforms to those standards.

As a result of the deficiencies described above, we believe that the engagements submitted for review by XYZ & Co. for the year ended June 30, 20XX were not performed and reported in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. The firm has received a peer review rating of fail.

Smith, Jones and Associates

*[name of review captain’s firm on Firm-on-Firm Review or Association Formed Review Team]*

John Brown, Review Captain  
[CART Review]

\* The report should use the plural “we,” “us,” and “our” even if the review team consists of only one person. The singular “I,” “me,” and “my” is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

\*\* The deficiencies and related recommendations provided are examples provided for illustrative purposes only

191. **Appendix N**

## **Illustration of a Response by a Reviewed Firm to a Report with a Peer Review Rating of Fail in an Engagement Review**

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each of the significant deficiencies. If the reviewed firm disagrees with one or more of the significant deficiencies or recommendations in the report the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph 116 of the *Standards*. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (See paragraphs 136 through 140 "Accepting System and Engagement Reviews"). The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity.

October 31, 20XX

*[Addressed to the peer review committee of the administering entity]*

Ladies and Gentlemen:

This letter represents our\* response to the report on the Engagement Review of our firm's accounting practice for the year ended June 30, 20XX.

\*\*To prevent the recurrence of the deficiencies noted by the reviewer and to prevent other such deficiencies from occurring, we will review the professional standards related to the deficiencies and ensure that the professional standards will be complied with on all future engagements.

Specifically, we have strengthened the engagement review to ensure that management representation letters are obtained for all review engagements performed by the firm.

All professional staff who work on accounting engagements will be participating in continuing professional education in disclosures and reporting by December 31, 20XX to address the disclosure and reporting deficiencies noted by the reviewer. In addition, we have started using a third-party reporting and disclosure checklist to ensure all reporting and disclosure matters are appropriately addressed. The reporting and disclosure checklist is tailored to specialized industries, where applicable.

The firm is now using third-party practice aids for guidance in compilations of financial statements for management use only, and this includes engagement letters that conform to professional standards to document the client's understanding with respect to these engagements. We believe these actions are responsive to the deficiencies noted on the review.

Sincerely,

*[Name of firm]*\*\*\*

\* The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner

\*\* The numbering of responses, to coincide with the numbered comments in the report, is optional.

\*\*\* Signed by an authorized partner of the firm



192. **Appendix O**

**Illustration of a Report with a Peer Review Rating of Pass on a Peer Review of Quality Control Materials or CPE Programs**

Quality Control Materials\* Review Report

April 30, 20XX

Executive Board  
XYZ Organization  
and the AICPA Peer Review Board's National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of (identify each item covered by the opinion or refer to an attached listing) ("materials") of XYZ Organization (the organization) and the resultant materials in effect at December 31, 20XX. Our quality control materials\* peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* ("Standards") established by the Peer Review Board of the American Institute of Certified Public Accountants. The organization is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards that the materials purport to encompass. Our responsibility is to express an opinion on the design of the system, and the organization's compliance with that system based on our review. The nature, objectives, scope, limitations of and the procedures performed in a Quality Control Materials\* Review are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

In our opinion, the system of quality control for the development and maintenance of the quality control materials\* of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 20XX to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials\* referred to above are reliable aids at December 31, 20XX. Organizations can receive a rating of pass, pass with deficiency(ies) or fail. This report reflects a peer review rating of pass.

ABC & Co.\*\*

\* Or "CPE Programs", if applicable

\*\* The report should be signed in the name of the Team Captain's firm for firm on firm reviews or association formed review teams

193. **Appendix P**

## **Illustration of a Report with a Peer Review Rating of Pass with Deficiencies on a Peer Review of Quality Control Materials or CPE Programs**

### **Quality Control Materials\* Review Report**

April 30, 20XX

Executive Board  
XYZ Organization  
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of (identify each item covered by the opinion or refer to an attached listing) (“materials”) of XYZ Organization (the organization) and the resultant materials in effect at December 31, 20XX. Our quality control materials\* peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* (“Standards”) established by the Peer Review Board of the American Institute of Certified Public Accountants. The organization is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards that the materials purport to encompass. Our responsibility is to express an opinion on the design of the system, and the organization’s compliance with that system based on our review. The nature, objectives, scope, limitations of and the procedures performed in a Quality Control Materials Review\* are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

We noted the following deficiencies\*\* during our review:

1. Deficiency—The organization’s policies and procedures for the development and maintenance of quality control materials state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The organization’s policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the organization during the review period indicated that several questionnaires which had significant feedback as to the accuracy of the information of certain materials were not being read, summarized or analyzed to determine whether the quality control materials require change.

Recommendation—The organization should revise its policies and procedures for the development and maintenance of quality control materials to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass.

2. Deficiency—The organization’s policies and procedures require that a technical review of all quality control materials be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass. During our review, we noted that such a technical review was performed on all of the materials we reviewed except for the current edition of the general financial statement disclosure and reporting checklist, construction contractor disclosure checklist

## Guidance for Performing and Reporting on Peer Reviews

and the checklist for personal financial statements which had cold reviews performed by the developer. However, we were satisfied that the checklists are reliable aids.

Recommendation—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

In our opinion, except for deficiencies described above, the system of quality control for the development and maintenance of the quality control materials\* of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 20XX to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials\* referred to above are reliable aids at December 31, 20XX. Organizations can receive a rating of pass, pass with deficiency(ies) or fail. This report reflects a peer review rating of pass with deficiencies.

ABC & Co.\*\*\*

\* Or “CPE Programs”, if applicable

\*\* The deficiencies and related recommendations provided are examples provided for illustrative purposes only

\*\*\* The report should be signed in the name of the Team Captain’s firm for firm on firm reviews or association formed review teams

194. **Appendix Q**

## **Illustration of a Report with a Peer Review Rating of Fail in a Peer Review of Quality Control Materials or CPE Programs**

*The deficiencies in this illustration represent various examples and are not intended to suggest that the peer review would require this number of deficiencies to warrant a report with a peer review rating of fail.*

### **Quality Control Materials\* Review Report**

October 31, 20XX

Executive Board  
XYZ Organization  
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of (identify each item covered by the opinion or refer to an attached listing) (“materials”) of XYZ Organization (the organization) and the resultant materials in effect at December 31, 20XX. Our quality control materials\* peer review was conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* (“Standards”) established by the Peer Review Board of the American Institute of Certified Public Accountants. The organization is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards that the materials purport to encompass. Our responsibility is to express an opinion on the design of the system, and the organization’s compliance with that system based on our review. The nature, objectives, scope, limitations of and the procedures performed in a Quality Control Materials Review\* are described in the *Standards for Performing and Reporting on Peer Reviews* effective for peer reviews commencing on or after January 1, 2009 at [www.aicpa.org/members/div/practmon/pr\\_stds.htm](http://www.aicpa.org/members/div/practmon/pr_stds.htm).

We noted the following significant deficiencies\*\* during our review:

1. Deficiency—The organization’s policies and procedures for the development and maintenance of quality control materials state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The organization’s policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the organization during the review period indicated that several questionnaires which had significant feedback as to the accuracy of the information of certain materials were not being read, summarized or analyzed to determine whether the quality control materials require change.

Recommendation—The organization should revise its policies and procedures for the development and maintenance of quality control materials to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass.

## Guidance for Performing and Reporting on Peer Reviews

2. Deficiency—The organization’s policies and procedures require that a technical review of all quality control materials be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming to the professional standards the materials purport to encompass. During our review, we noted that such a technical review was not performed on the materials we reviewed. As a result, some of the materials were not up-to-date or were inaccurate, and thus were not reliable aids.

Recommendation—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

In our opinion, as a result of the deficiencies described above, the system of quality control for the development and maintenance of the quality control materials\* of XYZ Organization was not suitably designed and/or complied with during the year ended December 31, 20XX to provide the users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials\* referred to above are not reliable aids at December 31, 20XX. Organizations can receive a rating of pass, pass with deficiency(ies) or fail. This report reflects a peer review rating of fail.

ABC & Co.\*\*\*

\* Or “CPE Programs”, if applicable

\*\* The deficiencies and related recommendations provided are examples provided for illustrative purposes only

\*\*\* The report should be signed in the name of the Team Captain’s firm for firm on firm reviews or association formed review teams

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AICPA Peer Review Program

Susan Rowley  
Senior Technical Manager  
AICPA Peer Review Program



# ***Proposed Peer Review Standards Interpretations***

## **Table of Contents**

	Page
Notice to Readers.....	2
1. Use of the <i>Standards</i> .....	2
2. Individual Enrollment in the Program.....	3
3. Acquisitions and Divestitures and Their Effect on Peer Review Scope.....	4
4. Resignations From and Reenrollment in the Program.....	5
5. Cooperating with the Administering Entity and the Board.....	5
6. Compilations Performed Under the Statement on Standards for Accounting And Review Services (SSARS) No. 1, Amended by SSARS No. 8, Where No Compilation Report is Issued.....	8
7. Performing System Reviews at a Location Other Than the Practitioner's Office.....	9
8. Peer Reviews to be Administered by the National Peer Review Committee.....	10
9. Timing of Peer Reviews.....	11
10. Independence, Integrity, and Objectivity.....	12
11. Peer Review Documentation and Retention Policy.....	17
12. Associations of CPA Firms and Association Formed Review Teams.....	19
13. Organizing the System or Engagement Review Team.....	21
14. Qualifying for Service as a Peer Reviewer or Technical Reviewer.....	21
15. Other Planning Considerations and Reporting of PCAOB Inspection Results.....	24
16. Considering the Firm's Monitoring Procedures.....	25
17. Engagement Selection in System Reviews.....	27
18. Inclusion of Engagements in the Scope of the Peer Review.....	28
19. Concluding on the Review of an Engagement.....	29
20. Notification and Submission of Review Documentation to the Administering Entities.....	30
21. Qualifying for Service as a Peer Review Committee Member, Report Acceptance Body Member or Technical Reviewer.....	31
22. Defining the Acceptance and Completion Dates on a Peer Review.....	32
23. Publicizing Peer Review Information.....	33
24. Communications Received by the Reviewed Firm Relating to Allegations or Investigations in the Conduct of Accounting, Auditing or Attestation Engagements from Regulatory, Monitoring or Enforcement Bodies.....	33



## NOTICE TO READERS

Interpretations of the AICPA *Standards for Performing and Reporting on Peer Reviews (Standards)* are developed in open meetings by the AICPA Peer Review Board (Board) for peer reviews of firms enrolled in the AICPA Peer Review Program (Program). Interpretations need not be exposed for comment and are not the subject of public hearings. These Interpretations are applicable to firms (and individuals) enrolled in the Program; individuals and firms who perform and report on peer reviews; entities approved to administer the peer reviews; associations of CPA firms, whose members are also AICPA members, authorized by the Board to assist its members in forming review teams; and the AICPA Program staff. Interpretations are effective upon issuance unless otherwise indicated.

The prefix of each interpretation refers first to the paragraph number in the *Standards* and second to the number of the interpretation relating to that paragraph. For example, Interpretation “5-3” would be the 3<sup>rd</sup> Interpretation of paragraph 5 of the *Standards*. Not every paragraph of the *Standards* has an Interpretation, and thus there could be gaps in the numbering sequence of the Interpretations. If more than one *Standards* paragraph refers to a particular Interpretation, then the Interpretation’s prefix will refer to the first instance in the *Standards*, and the Interpretation would note what other paragraphs refer to the Interpretation. Interpretations have been grouped by topic and are numbered under that topic for reference purposes. For example, there are paragraph interpretations 3-1 and 3-2 under Interpretation 2 related to “Individual Enrollment in the Program”.

To the extent that new interpretations are added before the next version of the *Standards* is issued, an interpretation may not be referred to in the *Standards* with the phrase “(See Interpretations)” and an interpretation may not be in these Interpretations in the same sequential order as in the *Standards*.

(Issued Through January 1, 2009)

## 1. Use of the *Standards*

**1-1 Question**—Paragraph 1 of the *Standards* discusses that the *Standards* are provided for those enrolled in the Program. Who else may use these *Standards* and who determines who enrolls in the Program?

*Interpretation*--Although the *Standards* are currently intended for AICPA members and their firms, State CPA societies or other organizations that are approved by the AICPA Peer Review Board to administer the Program for AICPA members may also use these *Standards*, as applicable<sup>1</sup>, in administering peer reviews of non-AICPA firms (and individuals).

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<sup>1</sup> While peer reviews performed under these circumstances are permissible, they are not currently considered as being performed under the auspices of the Program and such firms are not enrolled in the Program, since they are not subject to certain AICPA directed activities including oversight and “due process” procedures.

The Board determines who is eligible for enrollment in the Program.

**1-2 Question**—Who is currently eligible to enroll in the Program?

*Interpretation*— CPA firms in which at least one partner is a member of the AICPA, and in certain circumstances individual AICPA members, may enroll.

## **2. Individual Enrollment in the Program**

**3-1 Question**—AICPA Bylaws require individual CPAs (not the firm) to enroll in the Program if they perform compilation services in firms or organizations not eligible to enroll in such a program. To reflect this requirement, paragraphs 3 and 5 of the *Standards* refer to “firms and individuals in the Program”. What is meant by “firms or organizations not eligible to enroll,” and can any AICPA member enroll in the Program as an individual?

*Interpretation*—Under The Code of Professional Conduct (ET Appendix B, *Council Resolution Concerning Rule 505—Form of Organization and Name*), when the majority of the ownership of a firm, in terms of financial interests and voting rights, belongs to CPAs, it must enroll in the Program. A firm or organization without CPA majority ownership (a non-CPA owned entity) would not be eligible to enroll in the Program. The characteristics of such a firm are discussed in ET Appendix B (referred to above). Where the firm or organization is not eligible to enroll, such as due to a lack of majority ownership by CPAs, and the individual AICPA member performs compilation services in the firm or organization, the AICPA member is required to enroll individually in the Program. Only AICPA members meeting these criteria are able to enroll individually. Individual AICPA members who are only practicing with a firm that is eligible to enroll in the Program may not enroll in the Program individually.

**3-2 Question**—The *Standards*, Interpretations and guidance materials for the Program use the term “firm” throughout the materials. When an individual is appropriately enrolled in the Program how does the term “firm” apply to the enrolled individual and are there any situations where the *Standards*, Interpretations or guidance materials are intended to be directed at the actual firm or organization that was not eligible to enroll?

*Interpretation*—As an alternative to rewriting all of the *Standards* to reflect individual enrollment, the term “firm,” as it appears in the *Standards*, should be applied to the enrolled individual and not the firm or organization in which the individual is practicing public accounting that was not eligible to enroll. Under the characteristics of a firm not eligible to enroll in the Program, there must be a CPA who has ultimate responsibility for any financial statement compilation services; non-CPA owners cannot assume ultimate responsibility for any such services. In addition, any compilation report must be signed individually by a CPA, and may not be signed in the name of the firm or organization.

**3-3 Question**—When performing the peer review of an enrolled individual in the Program, what type of peer review would be required, what peer review materials would be used, and what changes would be necessary to the peer review report?

*Interpretation*—As with any peer review, the types of engagements performed dictate the type of peer review required. Since the enrolled individual could only be performing compilation services, this would only require an Engagement Review, although the individual could undergo a System Review. The current peer review materials can still be used as long as the

peer reviewer indicates that the peer review was that of an enrolled individual and not of a firm or organization. Similarly, the report, and if applicable, the letter of response, as well as other peer review documents and correspondences, should be tailored so that it is very clear that only the individual is being peer reviewed and not the firm or organization.

- 3-4 Question**—If an individual enrolled in the Program receives a report with a peer review rating of pass (formerly known as an unmodified report) on his or her Engagement Review and meets all other individual qualifications for service as a peer reviewer including independence considerations, can that individual perform peer reviews?

*Interpretation*—Yes. However, the individual alone would be the peer reviewer and not the firm or organization that was not eligible to enroll in the Program. The peer reviewer should make this fact evident.

- 3-5 Question**—As discussed in paragraph 144 of the *Standards*, can a hearing panel decide to terminate an individual's enrollment in the Program?

*Interpretation*—Yes. The due process related to hearings and appeals to the AICPA Joint Trial Board for individuals enrolled in the Program would parallel the process for enrolled firms, including publication of termination in such form and manner as the AICPA Council may prescribe. If a hearing panel decides to terminate an individual's enrollment in the Program, that individual can appeal to the AICPA Joint Trial Board. When the fact that an individual's enrollment has been terminated is published, the name of the firm or organization that was not eligible to enroll in the Program, with which the individual was practicing, is not published.

### 3. Acquisitions and Divestitures and Their Effect on Peer Review Scope

- 5c-1 Question**—Paragraph 5c of the *Standards* requires that enrolled firms have independent peer reviews of their accounting and auditing practices. What is the effect on the scope of a firm's peer review when there has been an acquisition of another practice or portion thereof, or a divestiture of a significant portion of the firm's practice, during or subsequent to the firm's peer review year?

*Interpretation*—When a reviewed firm has had an acquisition of another practice or a portion thereof, or a divestiture of a significant portion of its practice, during or subsequent to its peer review year, the reviewer, the reviewed firm, or both should consult with AICPA staff prior to the commencement of the review to consider the appropriate scope of the review or other actions that should be taken.

A divestiture of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance with the system of quality control for reports issued under the firm's name during that year. If the review team is able to review engagements of the divested portion of the reviewed firm's practice, then the review team should review such engagements considered necessary to obtain an appropriate scope for the peer review. In such circumstances, an appropriate scope is one where a reasonable cross section of the firm's practice is covered and the review covers all partners and significant industry areas that existed before the divestiture. If the divested portion of the practice is unavailable for review and represents less than ten percent of the reviewed firm's accounting and auditing hours, then the review team may not have to issue a report with a peer review rating of pass with deficiencies for a scope limitation. In all other circumstances, the review team should

carefully assess the effects the divestiture has on the scope of the peer review. A review team captain who is considering whether a peer review report should be issued with a peer review rating of pass with deficiencies for a scope limitation due to a divestiture should consult with the administering entity. An illustration of a report with a peer review rating of pass with deficiencies for a scope limitation in a System Review is included in Appendix F of the *Standards* “Illustration of a Report with a Peer Review Rating of Pass with Deficiency(ies) for a Scope Limitation in a System Review”.

## 4. Resignations From and Reenrollment in the Program

**5g-1***Question*—Paragraph 5g of the *Standards* discusses an enrolled firm’s responsibility to understand the Board’s guidance on resignations from the Program. Under what conditions may a firm resign from the Program?

*Interpretation*—A firm not in the course of a peer review may resign from the Program by submitting a letter of resignation to the Board. However, once a peer review commences, a firm will not be able to resign from the Program except as stated in the paragraph below. A peer review commences when the review team begins field work, ordinarily at the reviewed firm’s office in a System Review, or begins the review of engagements in an Engagement Review. The submission by the firm of a request to resign from the Program during the course of its peer review is considered a failure to cooperate with the administering entity and may lead to the termination of the firm’s enrollment in the Program by a hearing panel of the Board.

A firm will be permitted to resign during the course of a peer review when the firm submits a letter acknowledging its noncooperation with the Program, waiving its right to a hearing and agreeing to allow the AICPA to publish, in such form and manner as the AICPA Council may prescribe, the fact that the firm has resigned from the Program before completion of its peer review, evidencing noncooperation with the Program. However, if (a) the firm has been notified of the reviewer’s or administering entity’s intent to issue or require a report with a peer review rating of pass with deficiencies or fail (formerly known as modified or adverse reports) or (b) the reviewer or administering entity has knowledge of the discovery of an engagement that was not conducted in accordance with professional standards on which the firm must take, or would likely be required to take, action in accordance with professional standards, then the firm will only be permitted to resign when the firm waives its right to a hearing by pleading guilty to the charges in the hearing documents and agreeing to allow the AICPA to publish in such form and manner as the AICPA Council may prescribe the fact that the firm has resigned from the Program and that the situation in *a* or *b* above existed.

A firm that has been terminated from the Program may reenroll in the Program once it completes the delinquent action which caused the firm to be terminated. The administering entity and the Board make the determination of whether the action is satisfactorily completed. If the firm is past its next peer review due date, the firm will be required to complete its subsequent peer review within 90 days of reenrolling.

## 5. Cooperating with the Administering Entity and the Board

**5h-1***Question*—Paragraph 5h of the *Standards* notes that firms (and individuals) enrolled in the Program have the responsibility to cooperate with the administering entity and the Board in

## Guidance for Performing and Reporting on Peer Reviews

all matters related to the peer review including arranging, scheduling, and completing the review, and taking remedial, corrective actions as needed (paragraph 143). Under what circumstances will a firm (or individual) be not cooperating, and what actions can be taken by the Board for noncooperation?

*Interpretation*—The Board has issued a Resolution regarding dropping a firm's enrollment from the Program which is as follows:

### **AICPA Peer Review Board Resolution (Adopted April 29, 1996 with amendments through January 1, 2009)**

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required to have a peer review once every three years performed in conformity with the AICPA *Standards for Performing and Reporting on Peer Reviews*; and

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required under the AICPA *Standards for Performing and Reporting on Peer Reviews* to cooperate with the administering entity and with the AICPA Peer Review Board in all matters related to the review;

NOW, THEREFORE, BE IT RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be dropped by the AICPA Peer Review Board, without a hearing, thirty days after the AICPA Peer Review Program notifies the firm by certified mail that the firm has failed to:

- (1) Timely file requested information with the entity administering the firm's peer review concerning the arrangement or performance of that peer review,
- (2) Timely submit requested information to the reviewer necessary to plan or perform the firm's peer review,
- (3) Have a peer review by the required date,
- (4) Timely pay in full the fees and expenses of the review team formed by an administering state CPA society, or
- (5) Timely pay fees related to the administration of the program that have been authorized by the governing body of an administering entity.

The AICPA Peer Review Board may at its discretion decide to hold a hearing. Whether a hearing is held or not, a firm enrolled in the AICPA Peer Review Program has the right to appeal to the AICPA Joint Trial Board within 30 calendar days of being notified that the firm's enrollment has been dropped.

*Interpretation*—The AICPA Peer Review Board has issued a Resolution regarding terminating a firm's enrollment from the AICPA Peer Review Program which is as follows:

### **AICPA Peer Review Board Resolution (Adopted April 29, 1996 with amendments through January 1, 2009)**

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required to have a peer review once every three years performed in conformity with the AICPA *Standards for Performing and Reporting on Peer Reviews*; and

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required under the

## Peer Review Standards Interpretations

*AICPA Standards for Performing and Reporting on Peer Reviews* to cooperate with the administering entity and with the AICPA Peer Review Board in all matters related to the review;

NOW, THEREFORE, BE IT RESOLVED: A firm that fails to cooperate with the administering entity by (1) failing to timely file the report, and the response thereto, if applicable, related to its peer review or (2) failing to timely acknowledge and complete required corrective or monitoring actions, will be advised by certified mail that the AICPA Peer Review Board will appoint a hearing panel to consider whether the firm's enrollment in the AICPA Peer Review Program should be terminated. A firm enrolled in the AICPA Peer Review Program that has been notified that it is the subject of such a hearing may not resign until the matter causing the hearing has been resolved. After a hearing is held, a firm whose enrollment in the AICPA Peer Review Program has been terminated has the right to appeal the panel's decision to the AICPA Joint Trial Board within 30 calendar days of the hearing; and

BE IT FURTHER RESOLVED: That a firm's failure to cooperate with the administering entity would also include failing to receive a report with a rating of pass after (1) receiving at least two consecutive peer reviews prior to the third that had a report with a peer review rating of pass with deficiencies and/or fail (formerly known as modified or adverse reports) AND (2) receiving notification via certified mail after the second consecutive report with a peer review rating of pass with deficiencies and/or fail (formerly known as modified or adverse reports), that a third consecutive failure to receive a report with a peer review rating of pass (formerly known as an unmodified report) may be considered a failure to cooperate with the administering entity. Report reviews<sup>2</sup> containing significant comments are considered equivalent to failing to receive a report with a peer review rating of pass (formerly known as an unmodified report) for the purposes of this resolution.

BE IT FURTHER RESOLVED: The administering entity has the authority to determine if a firm's response is substantive. If the administering entity determines that a response is not substantive, and the firm does not revise its response or submits additional responses that are not substantive as determined by the administering entity, this would also be deemed as a firm's failure to cooperate.

BE IT FURTHER RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be terminated for failure to cooperate in any of the above situations, without a hearing, upon receipt of a plea of guilty from the firm; and BE IT FURTHER RESOLVED: That pursuant to the *AICPA Standards for Performing and Reporting on Peer Reviews*, the fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, whether with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe.

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<sup>2</sup> Although Standards no longer permit the performance of Report Reviews as of January 1, 2009, a firm's last peer review could have been a Report Review.

## 6. Compilations Performed Under the Statement on Standards for Accounting and Review Services (SSARS) No. 1, Amended by SSARS No. 8, Where No Compilation Report Is Issued

**6-1 Question**—The *Statement on Standards for Accounting and Review Services* (SSARS) No. 1 was amended by SSARS No. 8, Amendment to Statement on Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements*, to include compilations of financial statements where in very specific situations, the accountant may document its understanding with the entity through the use of an engagement letter instead of issuing a compilation report. This approach is only available when the accountant submits unaudited financial statements to his or her client that are not expected to be used by a third party (i.e. compilation for management’s use only). The AICPA Bylaws state that firms (or individuals in certain situations) are only required to enroll in the Program if they perform services that are within the scope of the AICPA’s practice-monitoring standards *and issue reports* purporting to be in accordance with AICPA professional standards. Therefore, for purposes of individual AICPA membership admission and retention, firms (or individuals) that only perform these types of compilations where no report is issued and no other engagements within the scope of peer review as discussed in paragraph 6 of the *Standards*, would not be required to enroll in the Program. Would the compilations for management’s use only be subject to peer review when the firm is already enrolled in the Program because, for example, it performs services and issues reports on other engagements that are within the scope of the *Standards*?

*Interpretation*—Yes. For firms enrolled in the Program, compilations for management’s use only as described in SSARS No. 8 would fall within the scope of peer review. The *Standards* (and *Statement on Quality Control Standards* No. 7) include within the definition of an accounting and auditing practice, all engagements covered by SSARS except where SSARS provides an exemption from those standards.

**6-2 Question**—The current *Standards* and guidance materials are written referring to “reports” throughout and do not consider an engagement performed under SSARS No. 8 where a compilation report is not issued. What general guidance should be followed by peer reviewers?

*Interpretation*—For purposes of the Program only, the required documentation of the understanding in the engagement letter, as detailed in SSARS No. 8, should be treated as though it was a “report” (as reports are discussed and referred to in the *Standards*). This documentation would not be considered a “report” for bylaw purposes.

**6-3 Question**—Specifically, what should the peer reviewer be reviewing on such an engagement on a System or Engagement Review?

*Interpretation*—SSARS No. 8 requires the accountant to document the understanding of the engagement with the entity through the use of an engagement letter. The reviewer is to inquire about the engagement letter to determine that it documents that understanding. The reviewer should also review the financial statements to determine that the required restriction of their use is on each page. Except for the restriction of use, the reviewer should not be reviewing the financial statements, disclosures or supplementary information for accuracy, appropriateness, or conformity with professional standards.

**6-4 Question**—Must a peer reviewer select such an engagement on a System or Engagement Review?

*Interpretation*—No. This engagement is not considered a different level of service. It is a compilation that either contains all disclosures required by generally accepted accounting principles or another comprehensive basis or the disclosures are omitted. The *Standards* already discuss the engagement selection process for such engagements in an Engagement Review. In addition, a System Review requires the peer reviewer to use a risk-based approach when selecting engagements. SSARS No. 8 does not change the existing engagement selection process.

**6-5 Question**—Should the standard language in the peer review report be tailored on a System or Engagement Review, if such engagement(s) are selected for review, to reflect the fact that these are compilations with documentation requirements and issued without a compilation report?

*Interpretation*—No.

## **7. Performing System Reviews at a Location Other Than the Practitioner's Office**

**8-1 Question**—Paragraph 8 of the *Standards* states System Reviews may be performed at a location other than the reviewed firm's office. What criteria have been established by the Board?

*Interpretation*—A review conducted at the reviewer's office or another agreed-upon location can achieve the objectives of a System Review provided that (1) the reviewed firm is a sole practitioner (with no professional staff) who performs a total of three or less engagements covered by the SAs, *Government Auditing Standards*, examinations of prospective financial statements under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB, (2) the sole practitioner holds one or more meetings, by telephone or in person, with the reviewer to discuss the firm's responses to the quality control policies and procedures questionnaire and other practice aid questionnaires, engagement findings, and the reviewer's conclusions on the review; (3) the firm did not receive a report with a peer review rating of pass with deficiencies or fail (formerly known as modified or adverse reports) on its last System or Engagement Review (or a Report Review with significant comments); and (4) in addition to materials outlined in the "Instructions to Firms Having a System Review" (see AICPA *Peer Review Program Manual*), the firm sends the following materials to the reviewer prior to the review (except as noted below):

- a. All documentation related to the resolution of independence questions (1) identified during the year under review with respect to any audit or accounting client or (2) related to any of the audit or accounting clients selected for review, no matter when the question was identified if the matter still exists during the review period
- b. The most recent independence confirmations received from other firms of CPAs engaged to perform segments of engagements on which the firm acted as principal auditor or accountant
- c. The most recent representations received from the sole practitioner concerning his



## Guidance for Performing and Reporting on Peer Reviews

or her conformity with applicable independence requirements

- d. A written representation, dated the same as the peer review report, as described in paragraph 5f and Appendix B of the *Standards*
- e. Documentation, if any, of consultations with outside parties during the year under review in connection with audit or accounting services provided to any client
- f. A list of relevant technical publications used as research materials, as referred to in the quality control policies and procedures questionnaire (See AICPA *Peer Review Program Manual*)
- g. A list of audit and accounting materials, if any, identified in response to the questions in the “Engagement Performance” section of the quality control policies and procedures questionnaire (See AICPA *Peer Review Program Manual*)
- h. Continuing professional education (CPE) records sufficient to demonstrate compliance with state, AICPA and other regulatory CPE requirements
- i. The relevant accounting and auditing documentation and reports on the engagements selected for review
- j. Documentation of the firm’s monitoring results for each year since the last peer review or enrollment in the Program
- k. Any other evidential matter requested by the reviewer
- l. In the event that matters are noted during the review of selected engagements, the scope of the review may have to be expanded before the review can be concluded
- m. The firm and the reviewer should mutually agree on the appropriateness and efficiency of this approach to the peer review, especially as it relates to the firm’s first System Review

## 8. Peer Reviews to be Administered by the National Peer Review Committee

**12-1***Question*—Paragraph 12 and 128 of the *Standards* notes that peer reviews intended to meet the requirements of the Program should be carried out in conformity with the *Standards* under the supervision of a state CPA society, group of state CPA societies, the AICPA Peer Review Board’s National Peer Review Committee (National PRC) or other entity (hereinafter, administering entity) approved by the Board to administer peer reviews. Under what circumstances are peer reviews administered by the National PRC? What other criteria relate to the firms previously enrolled in the Center for Public Company Audit Firms Peer Review Program (CPCAF PRP) and to that program’s peer reviewers?

*Interpretation*—Firms are required to have their review administered by the National PRC if they meet the following criteria:

- a) The firm is *required* to be registered with and inspected by the PCAOB
- b) The firm performs audits of non-SEC issuers pursuant to the standards of the PCAOB

Firms that are not required to have their review administered by the National PRC may choose to do so. However, such firms are subject to the National PRC’s administrative fee

structure and should familiarize themselves with that structure prior to making such a decision.

If corrective or monitoring actions were imposed by the CPCAF Peer Review Committee on a CPCAF PRP firm or peer reviewer, those actions will carryover to the firm's enrollment and the peer reviewer's involvement in the AICPA Peer Review Program, unless the actions were specific to the CPCAF PRP, as determined by the Board.

## 9. Timing of Peer Reviews

**13-1***Question*—Paragraph 13 of the *Standards* notes that a firm's due date for its initial peer review is eighteen months from the date it enrolled in the Program or should have enrolled, whichever date is earlier. What is meant by "should have enrolled"? In addition, what is the due date for a firm who was previously enrolled in the CPCAF PRP?

*Interpretation*—When an individual becomes an AICPA member, and the services provided by their firm (or individual) fall within the scope of the AICPA's practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA professional standards, the firm (or individual) should enroll in the Program. If the firm (or individual) does not initially provide services falling within the scope of the *Standards*, when the firm (or individual) first performs an engagement which falls under the scope, the firm (or individual) is required to enroll in the Program. In either case, the firm (or individual) should immediately notify the administering entity so that an appropriate due date may be determined. The administering entity will consider the firm's (or individual's) practice, the year-ends of engagements and when the procedures were performed, and the number of engagements to be encompassed in the review. Using these factors, the administering entity will use its judgment to determine an appropriate due date. A firm's subsequent peer review ordinarily will be due three years and six months from this peer review year-end.

If a firm's most recent peer review was under the auspices of the CPCAF PRP, it may defer the due date for its next review until three years and six months from the year-end of that peer review.

**14-1***Question*—Paragraph 14 of the *Standards* states that when a firm performs its first engagement requiring it to have a System Review, the firm's next due date will be eighteen months from the year-end of the engagement. What does this mean?

*Interpretation*—When a firm, subsequent to the year-end of its Report or Engagement Review, performs an engagement under the SASs, *Government Auditing Standards*, examinations of prospective financial statements under the SSAEs, or an audit of a non-SEC issuer performed pursuant to the standards of the PCAOB, that would have required the firm to have a System Review, the firm should (a) immediately notify the administering entity and (b) undergo a System Review. The System Review will ordinarily be due 18 months from the year-end of the engagement (for financial forecasts and projections 18 months from the date of report) requiring a System Review or by the firm's next scheduled due date, whichever is earlier. However, the administering entity will consider the firm's practice, the year-ends of engagements and when the procedures were performed, and the number of engagements to be encompassed in the review, as well as use its judgment, to determine the appropriate year end and due date. Firms that fail to immediately inform the administering entity of the performance of an engagement described above will be required to participate

in a System Review with a peer review year-end that covers the engagement. A firm's subsequent peer review ordinarily will be due three years and six months from this peer review year-end.

**18-1***Question*—Paragraph 18 of the *Standards* requires that a firm maintain the same year-end on subsequent peer reviews, (which is three years from the previous year-end) and the same review due date (which is three years from the previous due date). What options does a firm have to change its year-end or extend the due date?

*Interpretation*—A firm is expected to maintain the same year-end on subsequent peer reviews. Nevertheless, circumstances may arise that may influence a firm to want to change its year-end. For instance, the nature of the firm's practice may change or they may reevaluate their current year-end and determine as a result that a different year-end is more practical. In such situations, a firm may change its year-end only with prior, written approval of the administering entity. Ordinarily, the firm's due date will change accordingly such that the due date will continue to be six months from the year end.

A firm is expected to maintain the same review due date. Nevertheless, circumstances may arise that require the firm to extend its review due date. In such situations, a firm may do so only with prior, written approval of the administering entity, and the extended review due date only applies to the current review. Extensions for subsequent review's due dates must be reapplied for.

In some situations, due to the size of the firm, the complexity of the peer review, and whether or not the review team is integrating peer review procedures with the firm's internal inspection procedures, a peer review may occur over a number of months. In such situations, a firm whose peer review is being oversighted by the administering entity may extend its review due date by up to six months with prior, written approval of the administering entity.

In any of the situations described above, it is the responsibility of the firm to ensure that any change in the review due date (or year-end) approved by the administering entity is recognized by any other organizations requiring it to have a peer review. This includes but is not limited to state boards of accountancy, the Governmental Accountability Office (GAO) and other regulators.

**18-2***Question*—Situations may arise where circumstances out of a firm's control, such as a natural disaster or other form of destruction, affect a firm's operations and thus its ability to comply with some or all of the peer review requirements, including timing of the peer review. What should a firm do in those circumstances?

*Interpretation*—The administering entity should be consulted, when possible, as to how the firm believes the situation has affected or will affect their peer review. The administering entity will assist in determining whether there could be a possible scope limitation due to the exclusion of any affected engagements/ offices, the need for a change in year end or an extension of due date, and the effect on the firm's continuing peer review cycle. These situations will be considered on a case-by-case basis.

## 10. Independence, Integrity, and Objectivity

**21-1***Question*—Paragraph 21 of the *Standards* states that independence in fact and in appearance should be maintained with respect to the reviewed firm by a reviewing firm, by review team

members, and by any other individuals who participate in or are associated with the review and that the review team should perform all peer review responsibilities with integrity and maintain objectivity in discharging those responsibilities. What criteria have been established by the Board?

*Interpretation*—The following criteria have been established:

a. **Reciprocal Peer Reviews**

Reciprocal peer reviews are not permitted. This means that a firm may not perform a review of the firm that performed its most recent review. It also means that no professional may serve on a review team carrying out a review of a firm whose professional personnel participated in the most recent review of that professional's firm.

b. **Relationships with Clients of the Reviewed Firm**

Review team members and, in the case of a review performed by a firm, the reviewing firm and its personnel, are not precluded from owning securities in, or having family or other relationships with clients of the reviewed firm. However, a review team member who owns securities of a reviewed firm's client shall not review the engagement of that client, since that individual's independence would be considered to be impaired. In addition, the effect on independence of family and other relationships and the possible resulting loss of the appearance of independence must be considered when assigning team members to engagements.

c. **Relationships with the Reviewed Firm**

Reviewing firms should consider any family or other relationships between the management at organizational and functional levels of the reviewing firm and the firm to be reviewed and should assess the possibility of an impairment of independence.

If the fees for any services provided between firms, whether paid by the referring firm or by the client, involving the reviewed firm and the reviewing firm or the firm of any member of the review team are material to any of those firms, independence for the purposes of this Program is impaired.

If arrangements exist between the reviewed firm and the reviewing firm or the firm of any member of the review team whereby expenses, office facilities, or professional staff are shared, independence for the purposes of this Program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, frequent continuing education programs (CPE), extensive consultation, preissuance reviews of financial statements and reports, and/or audit and accounting manuals. In such circumstances, the firms involved are sharing materials and services that are an integral part of their systems of quality control. However, the impairment would be removed if an independent peer review was made of the shared materials (such as CPE programs or an audit and accounting manual) before the peer review commenced and that independent peer review was accepted by an approved body (determined by the Board) before that date.

**21-2***Question*—Firm A audits the financial statements of Firm B's pension plan. Could either firm perform a peer review of the other?

*Interpretation*—Yes, provided that the fees incurred for the audit are not material to either of the firms. An audit of financial statements is a customary service of an accounting firm. However, reciprocal peer reviews are not permitted.

## Guidance for Performing and Reporting on Peer Reviews

**21-3***Question*—Firm A is engaged by Firm B to perform a quality control document review, a preliminary quality control procedures review, or both. Could Firm A then be engaged to perform a peer review of Firm B?

*Interpretation*—No, except when required by the applicable administering entity’s peer review committee to assist a firm in complying with a peer review follow-up action in a year not covered by the subsequent peer review.

**21-4***Question*—A partner in Firm A serves as an expert witness for Firm B or for a party opposing Firm B. Are Firms A and B independent of each other?

*Interpretation*—Yes, provided that the fee is not material to either firm and provided that the outcome of the matter, if adverse to Firm B, would not have a material effect on its financial condition or its ability to serve clients.

**21-5***Question*—Firm A has an arrangement with Firm B whereby Firm A sends its staff to continuing education programs developed by Firm B. Can Firm B perform a peer review of Firm A?

*Interpretation*—No, unless Firm B has had its continuing education programs peer reviewed by an independent party (See *Standards* for guidance on “Performing and Reporting on Peer Reviews of Quality Control Materials and Continuing Professional Education Programs”). If such a peer review is not undertaken and reported on before the peer review of Firm A commences, Firm B would not be considered independent for purposes of conducting the peer review of Firm A. However, occasional (infrequent and not part of Firm A’s regular CPE training plan) attendance by representatives of Firm A at programs developed by Firm B would not preclude Firm B from reviewing Firm A.

**21-6***Question*—Firm A occasionally consults with Firm B with respect to specific accounting, auditing, or financial reporting matters. Are Firms A and B independent of each other?

*Interpretation*—Yes, unless the frequency and extent of the consultation is such that Firm B is an integral part of Firm A’s consultation process.

**21-7***Question*—Firm A is engaged to perform the peer review of Firm B. However, Firm A performed a pre-issuance review on one of Firm B’s reports and accompanying financial statements for an accounting or auditing engagement during the period since the last peer review year-end. Can Firm A perform the peer review of Firm B?

*Interpretation*—Yes, unless the following are present:

1. The frequency and extent of the pre-issuance review(s) is such that Firm A is an integral part of Firm B’s accounting or auditing practice or;
2. The pre-issuance review(s) was performed on an engagement within the current peer review year.

**21-8***Question*—Firm B uses Firm A’s accounting and auditing manual as its primary reference source. Can Firm A perform a peer review of Firm B, or can Firm B perform a peer review of Firm A?

*Interpretation*—No, unless Firm A has had its accounting and auditing manual and any other of its reference material used by Firm B as a primary reference source peer reviewed by an

independent party. The peer review of the materials should be similar to the review of quality control materials in associations and should meet the same peer review performance and reporting standards. If such a peer review is not undertaken and reported on before the peer review commences, Firm A would not be considered independent for purposes of conducting the peer review. However, if the manual is used only as a part of the firm's overall reference library, independence would not be impaired. This interpretation also applies to providers of quality control materials or CPE Programs.

**21-9***Question*—Firm A performs a peer review of Firm B. Subsequently, Firm C performs a peer review of Firm B, and Firm D of Firm A. Would the restriction against reciprocity be violated if Firm B were now to review Firm A?

*Interpretation*—No. Although the *Standards* state that reciprocal peer reviews are not permitted, that provision is intended only to prohibit back-to-back peer reviews when each firm has not had an intervening peer review by another firm or team. However, this may be a situation where the administering entity elects to perform oversight.

**21-10***Question*—A manager from Firm A served as a team member on the most recent peer review of Firm B. Can a professional from Firm B serve on the peer review team of Firm A?

*Interpretation*—No, because that would be considered a reciprocal review.

**21-11** *Question*—Can an individual from Firm A be engaged by Firm B to conduct an inspection of Firm B's accounting and auditing practice or a consulting review and then be engaged to perform Firm B's subsequent peer review? What about another individual from Firm A?

*Interpretation*—In both cases, no, except when required by the applicable administering entity's peer review committee to assist a firm in complying with a peer review follow-up action.

**21-12***Question*—Can an individual from Firm A be engaged by Firm B to perform a peer review of Firm B and subsequently be engaged the following year(s) to conduct an inspection of Firm B's accounting and auditing practice or a consulting review? What about another individual from Firm A?

*Interpretation*—In both cases, yes, however, individual(s) from Firm A would not be eligible to perform Firm B's subsequent peer review except as noted in Interpretation 21-11 above.

**21-13***Question*—Firm A included the qualifications of Firm B in a proposal for one or more specific engagements. Could either firm perform a peer review of the other following a successful proposal?

*Interpretation*—No, unless any fees paid to Firm B are not material to either of the firms; the firms do not share directly or indirectly, or participate in, the profits of the other; the firms do not share fees, office facilities or professional staff; the firms do not have joint ownership of a for-profit entity; and the firms do not exercise any direct or indirect management control over the professional or administrative functions of the other.

**21-14***Question*—A group of firms (whether or not it uses a common name) places an advertisement in a trade journal indicating that its members are "specialists" and provide the "best advice." Although the firms are not specifically identified in the advertisement, a toll-

## Guidance for Performing and Reporting on Peer Reviews

free telephone number or Internet site is provided for contact. Can one firm in the group perform the peer review of another member firm in the same group?

*Interpretation*—No, because the group is marketing or selling services to potential clients on behalf of the firms, where the representations about the firms and the quality of their services are not objective or quantifiable.

**21-15***Question*—A group of firms (whether or not it uses a common name) places an advertisement in a trade journal. The advertisement indicates the number and geographical location of the member firms, and states that its members provide professional accounting and auditing services to over 2500 industry clients nationwide and that each of the member firms passed its most recent peer review. A toll-free telephone number or Internet site is provided for contact. Can one firm in the group perform the peer review of another member firm in the same group?

*Interpretation*—Yes, provided the group has submitted the Association Information Form (AIF) to the Board and has received notification that the AIF was accepted, since the representations in the advertisement are objective or quantifiable.

**21-16***Question*—What would constitute “objective and quantifiable” with respect to representations made in advertisements by an association of CPA firms, such as in brochures, pamphlets, web sites, etc.?

*Interpretation*—Representations made in advertisements by an association of CPA firms would be considered “objective and quantifiable” provided that the association of CPA firms maintains documentation to support the representations, and such documentation is available for review by the Board. For example, if an association of CPA firms advertises that its members provide professional accounting and auditing services to a designated number of industry clients in a certain geographic area, some form of client listing should be maintained in support of the representation. If an association of CPA firms advertises that each of its member firms have passed peer review, letters from the entities accepting the peer review documents of those firms should be maintained. Representations should not be made by an association of CPA firms in their advertisements that designate themselves as “the best,” “the finest,” “uniquely qualified,” “prestigious,” “elite,” etc. These superlative descriptions are generic words and terms that are too subjective. Also, such representations in advertisements by an association of CPA firms cannot be readily supportable by any form of documentation that can be reviewed.

**21-17***Question*—Certain members of an association (i.e., parent association) may form a partnership or sub-association, which is a grouping of association member firms for the purpose of joint marketing of products or services. Can members of the sub-association perform peer reviews on firms of the parent association that are not involved in the activities of the sub-association?

*Interpretation*—Although a member of a sub-association cannot peer review another member of the same sub-association, the existence of a sub-association by itself should not disqualify members of the sub-association from performing peer reviews of nonaffiliated member firms of the parent association. However, members of a sub-association should not perform peer reviews on firms of the parent association that are not involved in the activities of the sub-association if there appears to be a lack of independence, such as the following:

- a. The parent association has a direct or material indirect financial interest in the sub-association.

- b. The sub-association has the same or a similar name of the parent association.
- c. The parent association and the sub-association share and use the same facilities, such as: offices, telephone numbers, employees, letterhead, and marketing materials.

**21-18** *Question*—Is independence impaired when the reviewers' firm and the firm subject to peer review have arrangements with the same non-CPA owned entity (including all entities owned or controlled by a common parent company) where the partners of both firms are also employees of that non-CPA owned entity, and remit revenues and/or profits to the non-CPA owned entity for payment of the lease of employees, office facilities, equipment or other services provided by the non-CPA owned entity?

*Interpretation*—Yes, independence is impaired and the firms involved with the non-CPA owned entity are precluded from participating in the peer review of one another or of other firms related to the non-CPA owned entity.

**21-19** *Question*—A state CPA society places an advertisement promoting the CPA profession without identifying any specific firms. May firms whose personnel belong to that state CPA society provide peer review for each other?

*Interpretation*—Yes.

**21-20** *Question*—Firm A and Firm B have shared office facilities for the last several years. Due to the growth of both firms, Firm B moved into new offices on January 1, 2006. In March 2008, Firm A engaged Firm B to perform the peer review of Firm A. Firm A's peer review year-end is December 31, 2007. Can Firm A perform the peer review of Firm B?

*Interpretation*—Yes, because the firms did not share office facilities within the current peer review year and any subsequent periods thereafter.

## 11. Peer Review Documentation and Retention Policy

**24-1** *Question*—Paragraph 24 of the *Standards* notes peer review documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached. How should the peer review be documented to comply with this requirement?

*Interpretation*—Among other things, peer review documentation includes records of the planning and performance of the work, the procedures performed, and conclusions reached by the peer reviewer. The Board has authorized the issuance of materials and checklists, including engagement review checklists, to guide team captains, review captains and other members of the review team in carrying out their responsibilities under these *Standards*.

Ordinarily, materials and checklists developed and issued by the Board are to be used by reviewers in carrying out their responsibilities under these *Standards*. Based on its understanding of the reviewed firm's system of quality control and its assessment of peer review risk, the review team should determine which materials and checklists issued by the Board are appropriate to use on the review. Substantial equivalents may be used, however, they must be comprehensive, appropriate and completed in an appropriate manner. It is the responsibility of the team captain or review captain to ensure that the materials used meet



## Guidance for Performing and Reporting on Peer Reviews

these *Standards*. Failure to complete all relevant materials and checklists may create the presumption that the review has not been performed in conformity with these *Standards* and thus the administering entity should be consulted in advance of use of any substantial equivalents to assist in reaching these conclusions.

**25-1 Question**—Paragraph 25 of the *Standards* notes that all peer review documentation should not be retained for an extended period of time after the peer review's completion, with the exception of certain documents that are maintained until the subsequent peer review's acceptance and completion. What period of time should peer review documentation be retained and what documentation should be maintained until the subsequent peer review's acceptance and completion?

*Interpretation*—Peer review materials prepared during System and Engagement Reviews, with the exception of those described in the paragraphs below, should be retained by the administering entity or the entity that formed the review team until 120 days after the peer review is completed (see separate Interpretation). The administering entity's peer review committee or the Board may indicate that any or all materials for specific peer reviews should be retained for a longer period of time, because, for example, the review has been selected for oversight. All peer review materials are subject to oversight or review by the administering entity, the Board, or other bodies the Board may designate, including their staff. All peer review materials prepared by the administering entities are subject to oversight by the Board.

Administering entities should retain the following materials until the firm's subsequent peer review has been completed:

- a. Peer review report and the firm's response to comments included therein, if applicable
- b. Letter of comments and the firm's response thereto, if applicable (for peer reviews commencing prior to January 1, 2009)
- c. Letter notifying the firm that its peer review has been accepted
- d. Letter signed by the firm indicating that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions, if applicable
- e. Letter notifying the firm that certain required actions have been completed, if applicable
- f. Settlement agreements received by the administering entity from the AICPA Professional Ethics Division related to individual members performance on accounting, auditing or attestation engagements
- g. Finding for Further Consideration (FFC) forms.

Administering entities may also retain the following administrative materials until the firm's subsequent peer review has been completed:

- a. Engagement letters
- b. Scheduling information
- c. Review team appointment acceptance letters
- d. Due date extension and year-end change requests and approvals

If a firm has been enrolled in an Institute-approved practice-monitoring program, but has not undergone a peer review in the last three years and six months since its last peer review

because the firm has not performed engagements and issued reports requiring it to have a peer review, the materials in Interpretation 25-1 should still be retained. The administering entity may also choose to retain the administrative materials in Interpretation 25-1. The materials for a firm that has not been enrolled in an Institute-approved practice-monitoring program for the last consecutive three years and six months are not required to be retained.

## 12. Associations of CPA Firms and Association Formed Review Teams

**26-1 Question**—Paragraph 26 of the *Standards* states that a review team may be formed by a firm engaged by the firm under review (a firm-on-firm review) or an association of CPA firms authorized by the Board to assist its members in forming review teams (an association formed review team). What criteria have been established by the Board for association formed review teams?

*Interpretation*—Associations of CPA firms include any association, network, or alliance of accounting firms. The term also applies to two or more firms or a group of firms (whether a formal or informal group) that jointly market or sell services.

A member firm of an association may conduct a peer review of another association-member firm enrolled in the Program, provided that it receives approval from the Board. Annually, the association must submit an Association Information Form (AIF) to the Board which must be approved by the Board prior to any aspect of the review being planned, scheduled, or performed.

The AIF contains questions regarding general information about the association, independence matters and whether the association requests to be approved to form review teams or provide technical assistance to such review teams. All review teams must still be approved by the administering entity. The AIF is subject to oversight by the Board.

The approval of the AIF specifically relates to AICPA members of an association having the ability to perform peer reviews of other AICPA members in the same association enrolled in the Program. Furthermore:

- a. Approval of the AIF does allow, where the association has answered the specific questions making such a request, the association the ability to form review teams (association formed review teams) and to provide technical assistance to such review teams.
- b. Approval of the AIF does not grant the association the authority to administer the Program and therefore the association is not deemed an approved administering entity.
- c. The administering entity, not the association, is responsible for ensuring that the peer reviews are scheduled, performed, presented for committee acceptance, and completed in a timely manner.
- d. Approval of the AIF is not an endorsement of, approval of, or has any applicability to a separate peer review program that an association may conduct and/or administer for non-AICPA members.

## Guidance for Performing and Reporting on Peer Reviews

For a member firm of an association to conduct peer reviews of another association-member firm enrolled in the Program, in addition to other peer review independence requirements, the association and its member firms must meet the following independence criteria:

- a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms or affiliates. For purposes of this requirement, “professional services” include accounting, tax, personal financial planning, litigation support services and professional services for which standards are promulgated by bodies designated by AICPA Council.
- b. The association does not make representations regarding the quality of professional services performed by its member firms to assist member firms in obtaining engagements, unless the representations are objective or quantifiable. However, member firms may independently publicize their membership in the association. In addition, an association may respond to inquiries and prepare promotional materials that firms may use to obtain professional engagements on their own behalf.
- c. Referral or participating work among member firms is arranged directly by the firms involved.
- d. The association does not have any direct or material indirect financial interest or involvement in its member firms in sharing fees generated by members through the sale of products or services.
- e. The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.

*Interpretation*—For a member firm of an association to conduct a peer review of another association-member firm enrolled in the Program when quality control materials or continuing professional education programs used by its members constitute association materials, the association shall arrange for an independent triennial peer review of those materials (See paragraphs 154 through 176 of the *Standards*). Therefore, firms that share such materials are advised to consult with AICPA Program staff if an independent review of the shared materials appears necessary.

An association formed review team:

- a. Requires that a majority of the review team members, including the team captain in System Review, and all members in an Engagement Review, be from association member firms, and
- b. Performs peer reviews in accordance with these *Standards*, Interpretations and other guidance and the peer review report is issued on the letterhead of the team captain’s/review captain’s firm and signed in the name of the team captain’s/review captain’s firm (not the association).

Peer reviews performed by association formed review teams are subject to oversight by the Board and the administering entities, and other bodies agreed upon by the Board and the administering entity.

## 13. Organizing the System or Engagement Review Team

**30-1 Question**—Paragraph 30 of the *Standards* states that a System Review team, a review captain on an Engagement Review (and, in unusual circumstances any additional reviewers on an Engagement Review) should be approved by the administering entity prior to the commencement of the review. How is this accomplished?

*Interpretation*—The firm and the reviewer should submit scheduling information as required by the administering entity. The administering entity will consider the industries of the engagements of the firm, its size, whether or not the review is administered by the National PRC and other factors in relation to the knowledge and experience of the members of the review team to determine if the team has the appropriate qualifications and capability to perform the review.

In order to be qualified to perform a peer review of a firm required to be administered by the National PRC, ordinarily a peer reviewer must currently be with a firm whose most recent review was administered by the National PRC or the Center for Public Accounting Firms (CPCAF) Peer Review Program. This is not a qualification requirement for a peer reviewer on a review of a firm that elects to have their peer review administered by the National PRC.

## 14. Qualifying for Service as a Peer Reviewer or Technical Reviewer

**31b-1 Question**— Paragraphs 31b and 31c of the *Standards* states that an individual serving as a peer reviewer should be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the Program and the firm (or all firms if associated with more than one firm) that the member is associated with should have received a report with a peer review rating of pass (formerly known as an unmodified report) for its most recent System Review or Engagement Review that was accepted timely, ordinarily within the last three years and six months. Does this apply to all firms the individual is associated with? Is the individual still qualified to serve as a reviewer if the individual starts, or becomes associated with, a newly formed firm (or a firm which has not had a peer review)?

*Interpretation*—If the individual is associated as a partner with more than one firm, then each of the firms the individual is associated with should have received a report with a peer review rating of pass (formerly known as an unmodified report) for its most recent System Review or Engagement Review that was accepted timely, ordinarily within the last three years and six months.

An individual who was previously a System Review team captain, a reviewer in a System Review or a review captain in an Engagement Review that starts, or becomes associated with, a newly formed firm (or a firm which has not had a peer review), may continue to serve in such capacity during a transition period. The transition period begins with the earlier of the dates of disassociation from the previous firm or when the individual starts or becomes associated with a new firm. The transition period ends with the earlier of eighteen months from the beginning date or the peer review due date of the new firm. In no circumstances will the transition period exceed eighteen months. The previous firm should have received a report with a peer review rating of pass (formerly known as an unmodified

report) on its most recently accepted peer review, and the individual should meet all of the other qualifications for service as a team captain or reviewer in a System Review or review captain in an Engagement Review. An individual who was previously a team captain or reviewer in a System Review qualified to perform peer reviews administered by the National PRC or CPCAF PRP that starts, or becomes associated with, a newly formed firm (or a firm which has not had a peer review), or a firm enrolled in the Program that has undergone a peer review administered by another administering entity, may serve as a team captain or a reviewer on a review administered by the National PRC under the same conditions and requirements as mentioned above.

**31d-1 Question**—Paragraph 31d of the *Standards* states that an individual serving as a peer reviewer should possess current knowledge of professional standards applicable to the kind of practice to be reviewed, including quality control and peer review standards. This includes recent experience in and knowledge about current rules and regulations appropriate to the level of service applicable to the industries of the engagements the individual will be reviewing. Interpretation 21 states that each technical reviewer charged with the responsibility for performing technical reviews should have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed. How may such knowledge be obtained, and is there a minimum amount of continuing professional education (CPE) required to be a peer or technical reviewer?

*Interpretation*—Such knowledge may be obtained from on-the-job training, training courses, or a combination of both.

If a peer or technical reviewer does not have such experience, the peer or technical reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The administering entity has the authority to decide whether a reviewer's or review team's experience is sufficient and whether they have the capability to perform a particular review whether related to high-risk engagements or other factors.

The fundamental purpose of CPE is to maintain and/or increase professional competence. AICPA members are required to participate in 120 hours of CPE every three years. In order to maintain current knowledge of accounting, auditing and quality control standards, peer and technical reviewers should obtain at least 40 percent of the AICPA required CPE in subjects relating to accounting, auditing and quality control. Peer and technical reviewers should obtain at least eight (8) hours in any one year and forty-eight hours every three years. The terms *accounting, auditing and quality control* should be interpreted as CPE that would maintain current knowledge of accounting, auditing and quality control standards for engagements that fall within the scope of peer review as described in paragraphs 6 and 7 of the *Standards*.

Peer and technical reviewers have the responsibility of documenting that they have complied with the CPE requirement. They should maintain detailed records of the CPE they complete in the event they are requested to verify their compliance. The reporting period will be the same as the reviewer maintains for the AICPA.

**31f-1 Question**—Paragraph 31f of the *Standards* states that an individual serving as a peer reviewer on a System or Engagement Review should have provided the administering entity with information that accurately reflects the qualifications of the reviewer, including recent industry experience, and is updated timely. How is this accomplished?

*Interpretation*—Ordinarily, an individual serving as a reviewer on a System or Engagement Review should have completed a peer reviewer resume in accordance with guidance issued by the Board that is updated timely and accurately reflects the qualifications of the reviewer including recent industry experience. This may also be accomplished by providing similar information to those performing an on-site oversight under the direction of a National PRC panel.

- 33-1** *Question*—Paragraph 33 of the *Standards* states that a team captain on a System Review or a review captain in an Engagement Review should “have completed peer review training that meets the requirements established by the Board”. Interpretation 21 states that each report acceptance body member should be trained in the *Standards*, Interpretations and guidance of the Program by completing a course that meets the team captain training requirements established by the Board within three years prior to serving on the committee or during the first year of service on the committee. Interpretation 21 also states that a technical reviewer charged with the responsibility for performing technical reviews should meet the requirements of the team captain/review captain training requirements established by the Board. What specific type of course or courses, if any, should be completed?

*Interpretation*—To initially qualify as a team captain on System Review, an individual should complete the AICPA two-day introductory reviewer training course, “How to Conduct a Review Under the AICPA Practice-Monitoring Program” (“How to”).

To qualify initially as a review captain in an Engagement Review, an individual should have completed the first day of the AICPA two-day introductory “How to” training course. The first day of the two-day course does not, however, fulfill the initial or continuing education requirements for service as a System Review team captain.

In order to maintain qualifications of a team captain or review captain, individuals should participate in eight (8) hours in continuing professional education in peer review training within three years prior to the commencement of a review. The team captain or review captain should complete a combination of the following courses which combined totals the eight (8) hour requirement: the AICPA two-day introductory “How to” training course (for review captains, only the first day needs to be attended); the AICPA one-day advanced reviewer training course, “Advanced Training Course for Reviewers: Current Issues in Practice Monitoring”; the annual AICPA Peer Review Conference; or other courses approved by the AICPA Peer Review Board. If a reviewer’s course selection includes one or more four (4) hour courses, the course hours must be combined and the timing of taking the courses coordinated so that the minimum requirement of eight (8) hours within three years prior to commencement of a review is met.

- 33-2** *Question*—Paragraph 33 of the *Standards* discusses the qualifications necessary to serve as a team captain on a System Review. Are there any other qualifications to be met to serve as a team captain?

*Interpretation*—For firms with greater than 400 professionals, with a professional defined as an individual who spends more than 25% of his/her time on accounting and auditing work that meets the criteria for a peer review, an individual who serves as the firm’s team captain or review captain for two successive peer reviews may not serve in that capacity for the firm’s next peer review.

**34-1***Question*—Paragraph 34 of the *Standards* discusses that an individual or his/her firm may have received communications from regulatory, monitoring or enforcement bodies relating to allegations or investigations in the conduct of accounting, audit or attestation engagements performed by the individual or others in the firm. The communications could include notification of limitations or restrictions of the reviewer's or reviewing firm's ability to practice accounting. How do these communications affect the qualification of an individual or firm to serve as a reviewer or reviewing firm on a System or Engagement Review?

*Interpretation*—An individual may not serve as a peer reviewer if his or her ability to practice public accounting has been limited or restricted in any way by a regulatory, monitoring, or enforcement body until the limitation or restriction has been removed. If the limitation or restriction has been placed on the reviewer's firm, or one or more of its offices, then the administering entity must carefully consider the specific circumstances as to whether any of the individuals associated with the firm, or the portion thereof, may serve as reviewers. Reviewers should immediately notify the administering entity of any such limitations or restrictions. In addition, reviewers should immediately notify the administering entity of communications relating to allegations or investigations from regulatory, monitoring or enforcement bodies in the conduct of accounting, audit or attestation engagements performed by the reviewer. The fact that a reviewer has received such communication(s) does not automatically mean that he or she is ineligible to perform peer reviews. The administering entity will consider the matter, including whether any action, including performing oversight on the reviewer, is appropriate.

The objective of the reviewer informing such communications to the administering entity is to enhance the Program's oversight process which includes ensuring that peer reviewers are appropriately qualified to perform reviews.

**34-2***Question*—What if a reviewer fails to immediately notify the administering entity of any such communications relating to the conduct of his or her performance of accounting, audit or attestation engagements?

*Interpretation*—If a reviewer fails to immediately notify the administering entity of such communications, the administering entity's peer review committee and/or the Board will consider what actions should be taken in the specific circumstances. These actions may include, but are not limited to, on-site oversight at the reviewer's expense or removal from the list of qualified peer reviewers.

**34-3***Question*—What are some types of communications that are appropriately related to meeting the objectives described in this Interpretation?

*Interpretation*—There are many types of communications that are appropriately related to meeting the objectives described in this Interpretation. See Interpretation 24 for a list, which is not intended to be all inclusive, which represents examples of the types of organizations where communications would be relevant to meeting the objectives of the requirement.

## 15. Other Planning Considerations and Reporting of PCAOB Inspection Results

**40-1***Question*—What is another planning consideration as referred to in Paragraph 40 of the *Standards* and what should be discussed with the team captain regarding the PCAOB's report as referred to in Appendix B-1e?

*Interpretation*—If the firm has undergone a PCAOB inspection or inspections, the team captain should discuss with appropriate firm personnel the reports submitted by the PCAOB or in the absence of such reports, any findings that may have been communicated orally. The discussion should cover the reports or findings from the PCAOB’s most recent inspections, both immediately prior to or during the peer review year and subsequent to the peer review year covered, if applicable. The team captain should inquire about any open PCAOB inspections, the status of those inspections and the firm’s corrective action plans. These discussions should focus on the results of the PCAOB’s inspection related to the firm’s system of quality control. The review team should consider what effects, if any, the matters contained in the reports could have on the planning or other procedures to be performed on the peer review. Although the PCAOB’s inspection only covers the firm’s SEC issuer practice, the PCAOB’s inspection reports may contain information related to offices, partners, or other matters that could assist the reviewer in assessing risk and planning peer review procedures. Discussion of these findings should not be interpreted to permit the peer reviewer to request the confidential portions of the PCAOB’s reports. Rather, relevant matters in the PCAOB’s reports are required to be discussed with the peer reviewer.

## 16. Considering the Firm’s Monitoring Procedures

**45-1***Question*—Paragraph 45 of the *Standards* notes that the review team should obtain a sufficient understanding of the reviewed firm’s monitoring policies and procedures since its last peer review, and their potential effectiveness, to plan the current peer review. In doing so, the review team may determine that the current year’s internal inspection procedures could enable the review team to reduce, in a cost-beneficial manner, the number of offices and engagements selected for review or the extent of the functional area review. What are some factors to consider in obtaining an understanding of the firm’s monitoring procedures? If the review team plans to consider the current year’s internal inspection procedures to reduce the scope of the peer review, what procedures are necessary?

*Interpretation*— Factors to consider in obtaining the understanding of the firm’s monitoring procedures include:

- a. The qualifications of personnel performing the monitoring procedures.
- b. The scope of the monitoring procedures (coverage of functional areas and engagements and the criteria for selecting offices and engagements for review).
- c. The appropriateness of the materials used for monitoring procedures (for example, questionnaires or checklists and instructions).
- d. The depth of the review of individual engagements, particularly with respect to the review of working papers and coverage of significant areas.
- e. The findings of the monitoring procedures, including internal inspections.
- f. The nature and extent of reporting and communicating the results of the monitoring procedures.
- g. The follow-up of findings resulting from the monitoring procedures.

In making a judgment about the effects that the firm’s current year’s internal inspection procedures will have on the selection of offices and engagements to be reviewed, the review team should consider the size of the firm and the potential effectiveness of the internal inspection procedures.



## Guidance for Performing and Reporting on Peer Reviews

If internal inspection procedures were not, or will not be, performed to cover the review year, the review team may not consider the prior year's internal inspection procedures to reduce the scope of the peer review.

If the review team does not plan to consider the reviewed firm's current year's internal inspection procedures to reduce the scope of the peer review, the review team need not necessarily perform the review of any of the engagements on which internal inspection procedures were performed by the reviewed firm. However, the review team may still wish to reperform the review of a few such engagements to assist the review team in obtaining a better understanding of the effectiveness of the internal inspection procedures performed by the reviewed firm.

If the review team plans to consider the current year's internal inspection procedures to reduce the scope of the peer review, the review team should test the firm's internal inspection procedures at selected offices and on selected engagements. These tests should be sufficient to provide the review team with a basis for determining whether (a) the reviewed firm's internal inspection procedures were applied properly in the reviews of individual practice offices and engagements, (b) the practice office and engagement reviews were carried out conscientiously by competent persons with appropriate expertise and objectivity, and (c) the findings from the reviewed firm's internal inspection procedures are indicative of the work performed in the particular office and therefore can be considered by the review team to reach an overall conclusion regarding the reviewed firm's compliance with its quality control policies and procedures. The testing of internal inspection procedures can be performed (a) contemporaneously with the reviewed firm's internal inspection procedures (commonly called "piggyback reviews") or (b) after the internal inspection procedures are completed. Because of the insight gained from observing the performance of internal inspection procedures, a review team testing the effectiveness of internal inspection procedures contemporaneously is generally in a better position to assess the effectiveness of the procedures.

When the review team tests the effectiveness of the internal inspection procedures contemporaneously with the performance by the internal inspection team performing the procedures, the review team should visit selected practice offices during the performance of the internal inspection procedures to (a) reperform the review of a sample of engagements subjected to internal inspection procedures and (b) reperform the review of a sample of the quality control policies and procedures (functional elements) subjected to internal inspection procedures in the office. During the visits, the review team should compare its findings to the internal inspection team's findings and resolve any differences. In addition, if applicable, the review team should attend discussions of engagement findings and the overall office findings.

When the review team tests the effectiveness of the internal inspection procedures after the procedures have been completed, the review team should reperform the review of a sample of engagements and the quality control policies and procedures (functional elements) subjected to internal inspection procedures in the office(s). The review team should compare its findings to the internal inspection team's findings and resolve any differences.

**45-2Question**—Is there more guidance regarding the extent that scope may be reduced, and what factors must be considered and steps performed in order to conclude on the effectiveness? In addition, may a review team apply this same guidance to the involvement of and results from regulatory oversight?

*Interpretation*—Yes. There is additional guidance in the AICPA *Peer Review Program Manual*. Peer reviewers are required to inform AICPA Technical Staff during peer review planning if, after considering that guidance, they plan on significantly reducing the scope of the procedures they will be performing.

## 17. Engagement Selection in System Reviews

**61-1***Question*—Paragraph 61 of the *Standards* requires that the team captain consult with the administering entity about the selection of engagements for review if the team captain finds that meeting all of the criteria in the related guidance results in the selection of an inappropriate scope of the firm's accounting and auditing practice. What items should the team captain consider to determine if the selection is appropriate?

*Interpretation*—The team captain should carefully consider whether-

- a. Significant risk areas have appropriate coverage (see paragraph 65 of the *Standards*).
- b. Appropriate weight has been given to reviewing work performed by all or most supervisory personnel.
- c. Adequate consideration has been given to engagement selection based on peer review risk on a firm-wide basis. For example, if two offices are selected for review and each has a large client in the same specialized industry, peer review risk should be considered in determining whether more than one of these engagements should be selected for review.

**62-1***Question*—Paragraph 62 of the *Standards* requires that specific types and/or number of engagements must be selected in a System Review as well as specific audit areas. In a System Review, what specific types and/or number of engagements, if any, should be included in the sample of engagements selected for review or assessed at a higher level of peer review risk?

*Interpretation*—At least one of each of the following types of engagements is required to be selected for review in a System Review:

- a. Governmental—*Government Auditing Standards* (GAS, also known as the Yellow Book), issued by the U.S. Government Accountability Office, require auditors conducting engagements in accordance with those standards to have a peer review that includes the review of at least one engagement conducted in accordance with those standards. If a firm performs an engagement of an entity subject to GAS and the peer review is intended to meet the requirements of those standards, *at least* one engagement conducted pursuant to those standards should be selected for review.
- b. Employee Benefit Plans—Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA). Therefore, if a firm performs the audit of one or more entities subject to ERISA, *at least* one such audit engagement conducted pursuant to ERISA should be selected for review.
- c. Depository Institutions—The 1993 Federal Deposit Insurance Corporation (FDIC) guidelines implementing the FDIC Improvement Act of 1991 (the Act) require auditors of federally insured depository institutions having total assets of \$500 million or greater at the beginning of its fiscal year to have a peer review that includes the review of at least

one audit of an insured depository institution subject to the Act. If a firm performs an audit of a federally insured depository institution subject to the Act and the peer review is intended to meet the requirements of the Act, *at least* one engagement conducted pursuant to the Act should be selected for review. The review of that engagement should include a review of the reports on internal control, since those reports are required to be issued under the Act.

In complying with the above requirements, peer reviewers should also ensure that the engagements selected include a reasonable cross-section of the firm's accounting and auditing engagements, appropriately weighted considering risk. Thus, the peer reviewer may need to select greater than the minimum of one engagement from these industries in order to attain this risk weighted cross-section.

For benefit plans under ERISA, the peer reviewer should also consider whether the engagement selection process has adequately addressed the risks involved in limited vs. full scope audits and in different types of benefit plans such as defined benefit, defined contribution and voluntary health and welfare plans. Similar considerations should be made on GAS and FDICIA engagements.

The team captain's consideration of this coverage should be discussed in his or her risk assessment documentation. This discussion should include any factors considered when the reviewed firm has a significant number of engagements in one of these high risk areas and it is not otherwise evident why only one engagement from the industry has been included in the scope of the review.

## 18. Inclusion of Engagements in the Scope of the Peer Review

**63-1***Question*—Paragraph 63 of the *Standards* notes that there is a presumption that all engagements otherwise subject to the peer review will be included in the scope of the review. Could a firm have a legitimate reason for excluding an engagement, and what is the effect on the performance of the review?

*Interpretation*—In rare situations a reviewed firm may have legitimate reasons for excluding certain engagements, for example when an engagement is subject to pending litigation. In those instances a reviewer should carefully consider the implication of such exclusion. Those considerations should include assessing the reasonableness of the reasons for the exclusions and assessing the impact on peer review risk assessments and scope. To reduce the potential for disagreement about such matters among the reviewed firm, the reviewer, and the administering entity, ordinarily, when the reviewed firm contemplates excluding engagements, it should notify the team captain in a timely manner and submit a written statement to the administering entity, ordinarily prior to the commencement of the review, indicating a) it plans to exclude an engagement(s) from the peer review selection process, b) the reasons for the exclusion and c) it is requesting a waiver for exclusion of the engagement(s). The administering entity should satisfy itself as to the reasonableness of the explanation before agreeing to the exclusion.

For peer reviews being overseen by a panel pre-assigned by the administering entity for on-site oversight purposes, the reviewed firm should notify the team captain in advance that it is probable that engagements will be excluded from the review, the general reasons for such exclusion, and a detailed description of the procedures used to identify and assess those situations. The panel as described above should determine that those procedures are appropriate in light of the circumstances. They should consider the level of oversight to which the review may be subject and the level of involvement that members of the Board

have in that oversight. In addition, they should consider the practicality of selecting a replacement and the availability of other engagements as appropriate replacements. Ordinarily, the greater the population of engagements to select from, the more there is an opportunity to find an appropriate replacement, and the less there is a risk that there is a scope limitation.

The administering entity (or panel as described above) should approve the request to exclude engagements as the situation arises only when it is satisfied that, based on the reasonableness of the procedures used to identify and assess the situations and the other factors described above, that there will be no limitations on the scope of the review.

Regardless of the approach used to notify the administering entity of engagement exclusions, the reasons for the exclusions and the risk assessment implications should be fully documented in the peer review working papers and the peer review committee should consider those factors as part of its evaluation and acceptance process.

## 19. Concluding on the Review of an Engagement

**66-1***Question*—Paragraphs 66, 67 and 109 of the *Standards* requires the review team to conclude on the review of an engagement by determining whether the engagement was performed and/or reported in conformity with applicable professional standards in all material respects. How should this conclusion be made?

*Interpretation*—The review team should use practice aids which document, for each engagement reviewed, whether anything came to the review team’s attention that caused it to believe the following, as applicable:

- a. The financial statements were not in conformity with generally accepted accounting principles (GAAP) in all material respects or, if applicable, with an other comprehensive basis of accounting (OCBOA) and the auditor’s/accountant’s report was not appropriately modified.
- b. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (GAAS) and other applicable standards, for example, *Governmental Auditing Standards*.
- c. The firm did not perform the engagement in all material respects in accordance with *Statements on Standards for Accounting and Review Services* (SSARS).
- d. The firm did not perform the engagement in all material respects in accordance with *Statements on Standards for Attestation Engagements* (SSAEs) or any other applicable standards not encompassed above.

In Engagement Reviews, these results should be considered by the review captain in determining the type of report to issue.

**67-2***Question*—Paragraphs 67 and 109 of the *Standards* notes that the team captain/review captain should promptly inform the firm when an engagement is not performed and/or reported in conformity with applicable professional standards and remind the firm of its obligations under professional standards to take appropriate actions. How is this communication made

and what other responsibilities does the team captain/review captain have in regards to the effected engagements?

*Interpretation*—If the reviewer answers *yes* with respect to any of the preceding items, the team captain/review captain should promptly inform an appropriate member of the reviewed firm on an MFC form. The team captain/review captain should remind the reviewed firm of its obligations under professional standards to take appropriate actions as addressed in the section of SAS No. 1 “Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report” (AICPA, *Professional Standards*, AU sec. 561), or if the firm’s work does not support the report issued, as addressed in SAS No. 46, *Consideration of Omitted Procedures After the Report Date* (AICPA, *Professional Standards*, AU sec. 390). The reviewed firm should investigate the issue questioned by the review team and determine what timely action, if any, should be taken, including actions planned or taken to prevent unwarranted continued reliance on its previously issued reports. The reviewed firm should then advise the team captain/review captain of the results of its investigation, including parties consulted, and document, on the MFC form prepared by the reviewer, the actions planned or taken or its reasons for concluding that no action is required.

Reviewers or administering entities should not instruct reviewed firms to recall accounting or auditing reports, to have them reissued, or to revise previously issued financial statements, as those are decisions for the firm and its client to make. However, the firm’s actions may impact other corrective actions the administering entity’s peer review committee may impose.

If the firm has taken action, the review team should review documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and consider whether the action is appropriate. If the firm has not taken action, the review team should consider whether the planned actions are appropriate.

## 20. Notification and Submission of Peer Review Documentation to the Administering Entities

**94-1***Question*—Paragraphs 94, 120 and 170 of the *Standards* instruct a reviewer to see the Interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity. What materials should be submitted and when should they be submitted by?

*Interpretation*—The team captain/review captain should notify the administering entity that the review has been performed and should submit to that administering entity within thirty days of the exit conference date or by the firm’s peer review due date, whichever date is earlier, a copy of the report, and the following documentation required by the administering entities at a minimum (consider sending by an insured carrier and/or retaining or sending copies):

*For System and Engagement Reviews:* The firm-wide Summary Review Memorandum (including the DMFC), Team Captain Checklist/Review Captain Checklist (as applicable), MFC and FFC forms, as applicable. Note that other working papers on these peer reviews are subject to oversight procedures, and may be requested at a later date.

For:

- CART Engagement Reviews
- All System Reviews, Engagement Reviews, and QCM and CPE Program Reviews administered by the National PRC

In addition to the above, include all other working papers incorporated by reference, and as applicable, including engagement checklists, Quality Control documents and related practice aids, Staff Interview/Focus Group/other interview Sessions, planning documents, and any other relevant documents.

## **21. Qualifying for Service as a Peer Review Committee Member, Report Acceptance Body Member or Technical Reviewer**

**132-1 Question**—Paragraphs 132 and 136 of the *Standards* note that minimum requirements must be met to be a peer review committee member, a report acceptance body member or a technical reviewer. What are those requirements?

Interpretation—

### Peer Review Committee Member

A majority of the peer review committee members and the chairperson charged with the overall responsibility for administering the Program at the administering entity should possess the qualifications required of a team captain on a System Review.

### Report Acceptance Body Member

Each member of an administering entity's report acceptance body charged with the responsibility for acceptance of peer reviews should be:

- a. Currently active in public practice at a supervisory level, in the accounting or auditing function of a firm enrolled in the Program, as a partner of the firm or as a manager or person with equivalent supervisory responsibilities. To be considered currently active in the accounting or auditing function, a reviewer should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements.
- b. Associated with a firm (or all firms if associated with more than one firm) that has received a report with a peer review rating of pass (formerly known as an unmodified report) on its most recently accepted System or Engagement Review that was accepted timely, ordinarily within the last three years and six months<sup>3</sup> (See Interpretation 22).
- c. Trained in the *Standards*, Interpretations and guidance of the Program by completing a course that meets the team captain training requirements established by the Board within three years prior to serving on the committee or during the first year of service on the committee (See Interpretation 14).

A majority of the report acceptance body members and the chairperson charged with the responsibility for acceptance of System Reviews should possess the qualifications required of a System Review team captain.

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<sup>3</sup> If a committee member's firm's most recent review was a Report Review, then the member is not eligible to be charged with the responsibility for acceptance of any peer reviews.

### Technical Reviewers

Each technical reviewer charged with the responsibility for performing technical reviews should:

- a.* Be trained in the *Standards*, Interpretations and guidance of the Program by completing within the three-year period preceding the commencement of the technical review one or more training courses that are applicable to the type of peer reviews being evaluated and that meet the requirements of the team captain/review captain training requirements established by the Board (See Interpretation 14).
- b.* Participate in at least one peer review each year which may include participation in an on-site oversight of a System Review.
- c.* Have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed (See Interpretation 14).

## **22. Defining the Acceptance and Completion Dates on a Peer Review**

**146-1***Question*—The *Standards* and Interpretations refer to *acceptance* and *completion* of peer reviews in several contexts, such as when a review can be publicized (paragraph 146), and the qualifications for service as a peer reviewer (paragraph 31c) and a report acceptance body member (Interpretation 21). Is there a difference between the acceptance and completion dates of a peer review?

*Interpretation*—There is no difference in those cases where the report, and letter of response, thereto, if applicable (peer review documents) are presented to the administering entity's peer review committee (committee), and the committee requires no additional corrective action(s) related to the deficiencies or significant deficiencies in a peer review report with a rating of pass with deficiency(ies) or fail by the reviewed firm, nor are there any revisions necessary to the peer review documents. In this circumstance, the date that the committee (or technical reviewer in most cases on an Engagement Review) makes this decision is defined as the acceptance date, and is also defined as the completion date of the peer review. The acceptance date is noted in a letter from the administering entity to the reviewed firm.

There is a difference between the acceptance and completion dates of a peer review when the peer review documents are presented to the committee, and the committee does not require any revisions to the peer review documents, but does require the reviewed firm to take corrective action(s) related to deficiencies or significant deficiencies in the report. In this circumstance, the acceptance date is defined as the date that the reviewed firm signs the letter from the administering entity agreeing to perform the required corrective action(s). The completion date is then defined as the date the committee decides that the reviewed firm has performed the agreed-to corrective action(s) to the committee's satisfaction, and the committee requires no additional corrective action(s) by the reviewed firm. This date is noted in a final letter from the administering entity to the reviewed firm.

In either of the situations described in the paragraphs above, the committee may require revisions to any of the peer review documents. In those cases, a review may not be deemed as accepted nor completed until such time that the peer review document(s) is (are) revised to the satisfaction of the committee.

## 23. Publicizing Peer Review Information

**146-2***Question*—Paragraph 146 of the *Standards* discusses that neither the administering entity nor the AICPA shall make the results of the review available to the public, except as authorized or permitted by the firm under certain circumstances. What are examples of those circumstances?

*Interpretation*—A firm may be a voluntary member of one of the AICPA's audit quality centers or sections which has a membership requirement such that certain peer review documents be open to public inspection. Other firms may elect not to opt out of the Program's process for voluntary disclosure of peer review results to state boards of accountancy (SBOAs) where the firm's main office is located. Also, firms may voluntarily instruct their administering entity to make the peer review results available to certain other SBOAs. In these cases, the firm permits the AICPA to make their peer review results available to the public or to SBOAs.

## 24. Communications Received by the Reviewed Firm Relating to Allegations or Investigations in the Conduct of Accounting, Auditing or Attestation Engagements from Regulatory, Monitoring or Enforcement Bodies

**App.B-1** *Question*—Appendix B (paragraphs 1b and 1e) of the *Standards*, discusses the reviewed firm's requirement to inform the reviewer of communications or summaries of communications from regulatory, monitoring or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, auditing or attestation engagement performed and reported on by the firm. What are the objectives of this requirement and what are some examples, although not an all inclusive list, of such communications?

*Interpretation*—The objective of the firm informing its reviewer of such communications or summaries of communications is to enhance the risk based approach to peer review by allowing the reviewer to better plan and perform the review, including engagement, industry, office and owner selection that should be given greater emphases in the review. It is expected that the reviewer and the firm will discuss these communications and that the firm will be able to submit the actual documentation to the reviewer in those circumstances that the reviewer deems appropriate. The reviewed firm is not required to submit confidential documents to the reviewer but should be able to discuss the relevant matters and answer the reviewer's questions.

There are many types of communications that are appropriately related to meeting the objectives described in this Interpretation. The following list, which is not intended to be all inclusive, represents examples of the types of organizations where communications would be relevant to meeting the objectives of the requirement:

- a. AICPA or State CPA Society Ethics Committees
- b. AICPA Joint Trial Board
- c. State Boards of Accountancy
- d. Securities and Exchange Commission



## Guidance for Performing and Reporting on Peer Reviews

- e.* Public Company Accounting Oversight Board
- f.* State Auditor
- g.* Department of Labor
- h.* Employee Benefits Security Administration
- i.* Government Accountability Office
- j.* Office of Management and Budget
- k.* Department of Housing and Urban Development
- l.* Federal Deposit Insurance Corporation
- m.* Office of Thrift and Supervision
- n.* Federal or State Inspector General's Offices
- o.* Rural Utility Service
- p.* Other governmental agencies or other organizations that have the authority to regulate accountants (in connection with the firm's accounting, auditing, or attestation engagements)

**App.B-2** *Question*—What if a reviewed firm chooses not to discuss or make such communications available to the reviewer during the review?

*Interpretation*—If a firm fails to discuss such communications with the reviewer, the reviewer should immediately consult with the administering entity to determine whether this failure should result in a scope limitation in the peer review report.

# **Exhibits to the Exposure Draft**

**Selected Practice Aids for System and Engagement Reviews**

*(Included for Reference Purposes Only)*

## **Exhibit 1**

### **Matter for Further Consideration (MFC) Form**

#### **Instructions**

The MFC form is where the reviewer documents engagement and other matters, primarily from the engagement checklists (and review of functional areas, for System Reviews) which require additional information or explanation of the facts from the reviewed firm. The key elements of the MFC form include:

- a.* Reviewer's description of the matter (including for System Reviews, where possible, the underlying cause of the matter)
- b.* Reference to the professional standard(s) applicable to the matter
- c.* Reviewed firm's agreement (or lack thereof) with the description of the matter
- d.* Reviewed firm's comments on the circumstances and significance of the matter
- e.* Team captain/review captain's additional comments
- f.* Identification of whether the matter was noted in the prior review
- g.* On a System Review, type of matter; design, performance (including documentation), or compliance
- h.* Signatures from the engagement partner, reviewer and the team captain/review captain

## **MATTER FOR FURTHER CONSIDERATION (MFC) FORM**

REVIEWED FIRM \_\_\_\_\_ OFFICE CODE # \_\_\_\_\_

PROFESSIONAL STANDARDS REFERENCE(S) \_\_\_\_\_ MFC # \_\_\_\_\_

REVIEWER'S DESCRIPTION OF THE MATTER \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES ☐ NO ☐

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

\_\_\_\_\_

\_\_\_\_\_

TEAM CAPTAIN'S/REVIEW CAPTAIN'S ADDITIONAL COMMENTS

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

WERE SIMILAR MATTERS NOTED IN THE PRIOR REVIEW? \_\_\_\_\_ Yes \_\_\_\_\_ No

Type of Matter (Only Answer on System Reviews):

☐ Design ☐ Performance (including documentation) ☐ Compliance

Signatures

Dates

Engagement Partner \_\_\_\_\_

Reviewer \_\_\_\_\_

Team/Review Captain \_\_\_\_\_

Program Questionnaire

Engagement Questionnaire

Q.C. Element \_\_\_\_\_ No. \_\_\_\_\_

Program Step \_\_\_\_\_ Question \_\_\_\_\_

***Team Captain/Review Captain should document the disposition of the above MFC on the Disposition of Matter for Further Consideration (DMFC) Form in the Summary Review Memorandum (SRM) on System Reviews and in the Review Captain's Checklist on Engagement Reviews.***

## **Exhibit 2**

# **Disposition of Matter for Further Consideration (DMFC) Form**

### **Instructions**

The DMFC form is a matrix to document the disposition of all MFCs. It is included in the Summary Review Memorandum for System Reviews and the Review Captain's Checklist for Engagement Reviews as a part of the working papers and provides a disposition trail for the peer reviewer, administering entity, and individuals conducting oversight. All of the MFCs are identified with an indication after each whether:

- a.* It was cleared, waived, an exit conference item or similar disposition
- b.* Individually, or combined with other MFCs, addressed in a specific FFC
- c.* It is included as a deficiency or significant deficiency in the peer review report with a peer review rating of pass with deficiencies or fail.

## **DISPOSITION OF MATTER FOR FURTHER CONSIDERATION (DMFC) FORM\***

### **IV. Overall Findings and Conclusions:**

#### **A. Disposition of Matter for Further Consideration Form**

Indicate below how each Matter for Further Consideration (MFC) form was handled, whether by inclusion in the peer review report **OR** via a Finding for Further Consideration (FFC) form **OR** another method of disposition.

REVIEWED FIRM \_\_\_\_\_ PEER REVIEW # \_\_\_\_\_

<i>MFC #</i>	<i>In Report? (Y/N)</i>	<i>Which Item # in Report?</i>	<i>Included on an FFC (Y/N)</i>	<i>FFC # (If included on an FFC)</i>	<i>Other disposition (i.e. exit conference/ resolved/other)</i>
—	—	—	—	—	_____
—	—	—	—	—	_____
—	—	—	—	—	_____
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—	—	—	—	—	_____
—	—	—	—	—	_____
—	—	—	—	—	_____

\* *Disposition of Matter for Further Consideration (DMFC) Form is included in the Summary Review Memorandum (SRM) on System Reviews and in the Review Captain's Checklist on Engagement Reviews.*

## **Exhibit 3**

# **Finding for Further Consideration (FFC) Form**

### **Instructions**

The FFC form is prepared in connection with a System Review or an Engagement Review if there are one or more matters that the peer reviewer believes results in a) a condition in which there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards in all material respects (System Review), or b) the financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported in conformity with the requirements of applicable professional standards (Engagement Review), but the results were not of such significance to include in a report with a peer review rating of pass with deficiencies or fail. Each FFC form:

- a.* Indicates which MFCs (by number) are addressed.
- b.* Indicates whether the matter was noted in the prior review.
- c.* On a System review, indicates the type of matter; design, performance (including documentation), or compliance.
- d.* Includes a summary of the reviewer's description of the matter from the MFCs addressed by this FFC, including where possible on System Reviews, the underlying cause of the matter.
- e.* Includes the reviewer's recommendation(s) written in a manner such that the firm can appropriately respond.
- f.* Includes the reviewed firm's response with a description of the action(s) taken (and timing) or planned to be taken..
- g.* Is signed by an authorized representative of the reviewed firm.
- h.* Is part of the working papers and administrative files, and is not a part of the reporting process.
- i.* Will be reviewed by the administering entity, with the applicable MFC forms, to determine if any additional firm action(s) will be required.
- j.* Is not tied to the reporting process or to the acceptance or completion of the peer review and is considered a part of the working papers and administrative files when a firm action is required by the peer review committee. Firms are expected to agree to and complete any such actions as a part of cooperating with the administering entity and the Board in all matters related to the review.
- k.* Allows the reviewer to use professional judgment in writing the recommendation(s) to the finding as long as it is written in a way that it would be expected for the reviewed firm to understand what the finding is and why it happened, and the recommendation appears appropriate in the circumstances. Some components of the FFC form may need to be completed after other MFC forms and the DMFC form are completed. If the MFC and FFC forms are completed in their entirety and include the elements described here, it is expected that the administering entity would not require any revisions to them.
- l.* Along with the associated MFC forms and the DMFC form, and, if applicable, firm actions, is subject to oversight.

FFC forms will be retained by the administering entity in the administrative files until the completion of the next peer review. They will be considered during the performance of the next peer review.

**FINDING FOR FURTHER CONSIDERATION (FFC) FORM**

REVIEWED FIRM \_\_\_\_\_ FFC # \_\_\_\_\_

MFC(S) COVERED BY THIS FORM (List MFC #s) \_\_\_\_\_

REVIEWER'S DESCRIPTION OF THE FINDING \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

WERE SIMILAR FINDINGS NOTED IN THE PRIOR REVIEW? \_\_\_\_\_ Yes \_\_\_\_\_ No

Type of Finding (Only Answer on System Reviews):

☐ Design ☐ Performance (including documentation) ☐ Compliance

REVIEWER'S RECOMMENDATION

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

REVIEWED FIRM'S RESPONSE (THE RESPONSE SHOULD DESCRIBE THE ACTIONS PLANNED OR TAKEN, INCLUDING THE TIMING OF THE ACTIONS, BY THE REVIEWED FIRM)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Authorized Representative of the Reviewed Firm \_\_\_\_\_ Date \_\_\_\_\_

**This document will be retained by the administering entity until the completion of the next peer review and will be considered during the performance of that peer review.**